

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 30, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-23255

**COPART, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**000-23255**  
(Commission File Number)

**94-2867490**  
(I.R.S. 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)

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class**  
Common Stock, par value \$0.0001

**Trading Symbol(s)**  
CPRT

**Name of each exchange on which registered**  
The NASDAQ Global Select Market

**Not Applicable**

(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 ☒ No ☐

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 such files). Yes ☒ No ☐

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

☒

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 ☒

As of May 20, 2021, 236,578,498 shares of the registrant's common stock were outstanding.

Copart, Inc.  
Index to the Quarterly Report  
April 30, 2021

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**Copart, Inc.**  
**Consolidated Balance Sheets**  
**(Unaudited)**

(In thousands, except share amounts)	April 30, 2021	July 31, 2020
<b>ASSETS</b>		
Current assets:		
Cash, cash equivalents, and restricted cash	\$ 911,890	\$ 477,718
Accounts receivable, net	434,873	350,207
Vehicle pooling costs	86,685	73,684
Inventories	39,229	20,080
Income taxes receivable	10,588	26,740
Prepaid expenses and other assets	16,106	15,330
Total current assets	1,499,371	963,759
Property and equipment, net	2,227,531	1,941,719
Operating lease right-of-use assets	125,709	118,455
Intangibles, net	42,535	47,772
Goodwill	347,515	343,622
Other assets	39,285	39,934
Total assets	\$ 4,281,946	\$ 3,455,261
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 359,239	\$ 318,530
Deferred revenue	20,660	8,233
Income taxes payable	9,140	3,709
Current portion of operating and finance lease liabilities	24,006	25,572
Total current liabilities	413,045	356,044
Deferred income taxes	57,767	71,686
Income taxes payable	55,637	44,965
Operating and finance lease liabilities, net of current portion	108,487	96,150
Long-term debt and other liabilities, net of discount	397,633	396,900
Total liabilities	1,032,569	965,745
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; 236,568,394 and 235,315,337 shares issued and outstanding, respectively.	24	24
Additional paid-in capital	733,581	672,727
Accumulated other comprehensive loss	(101,664)	(121,088)
Retained earnings	2,617,436	1,937,853
Total stockholders' equity	3,249,377	2,489,516
Total liabilities and stockholders' equity	\$ 4,281,946	\$ 3,455,261

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 April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
Service revenues and vehicle sales:				
Service revenues	\$ 623,846	\$ 491,582	\$ 1,671,819	\$ 1,489,472
Vehicle sales	110,064	58,778	272,062	190,452
Total service revenues and vehicle sales	733,910	550,360	1,943,881	1,679,924
Operating expenses:				
Yard operations	258,071	253,760	725,786	751,902
Cost of vehicle sales	94,498	53,987	232,487	170,651
General and administrative	53,230	47,512	150,682	146,987
Total operating expenses	405,799	355,259	1,108,955	1,069,540
Operating income	328,111	195,101	834,926	610,384
Other expense:				
Interest expense, net	(5,346)	(5,578)	(15,227)	(14,068)
Other income, net	770	2,277	3,103	2,640
Total other expense	(4,576)	(3,301)	(12,124)	(11,428)
Income before income taxes	323,535	191,800	822,802	598,956
Income tax expense	36,739	44,313	142,281	64,582
Net income	\$ 286,796	\$ 147,487	\$ 680,521	\$ 534,374
Basic net income per common share	\$ 1.21	\$ 0.63	\$ 2.88	\$ 2.30
Weighted average common shares outstanding	236,396	234,133	236,110	232,647
Diluted net income per common share	\$ 1.19	\$ 0.62	\$ 2.83	\$ 2.24
Diluted weighted average common shares outstanding	240,208	238,591	240,149	238,564

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

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

<b>(In thousands)</b>	<b>Three Months Ended April 30,</b>		<b>Nine Months Ended April 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Comprehensive income, net of tax:				
Net income	\$ 286,796	\$ 147,487	\$ 680,521	\$ 534,374
Other comprehensive income:				
Foreign currency translation adjustments	5,056	(19,053)	19,424	(6,394)
Comprehensive income	<u>\$ 291,852</u>	<u>\$ 128,434</u>	<u>\$ 699,945</u>	<u>\$ 527,980</u>

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

**Copart, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**(Unaudited)**

(In thousands, except share amounts)	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Stockholders' Equity
	Outstanding Shares	Amount				
<b>Balances at July 31, 2020</b>	235,315,337	\$ 24	\$ 672,727	\$ (121,088)	\$ 1,937,853	\$ 2,489,516
Net income	—	—	—	—	200,285	200,285
Currency translation adjustment	—	—	—	(7,406)	—	(7,406)
Exercise of stock options, net of repurchased shares	802,670	—	20,014	—	(489)	19,525
Stock-based compensation	—	—	8,913	—	—	8,913
<b>Balances at October 31, 2020</b>	236,118,007	24	701,654	(128,494)	2,137,649	2,710,833
Net income	—	—	—	—	193,440	193,440
Currency translation adjustment	—	—	—	21,774	—	21,774
Exercise of stock options, net of repurchased shares	121,158	—	3,098	—	(298)	2,800
Stock-based compensation	—	—	8,865	—	—	8,865
Shares issued for Employee Stock Purchase Plan	67,877	—	4,880	—	—	4,880
<b>Balances at January 31, 2021</b>	236,307,042	24	718,497	(106,720)	2,330,791	2,942,592
Net income	—	—	—	—	286,796	286,796
Currency translation adjustment	—	—	—	5,056	—	5,056
Exercise of stock options, net of repurchased shares	261,352	—	5,717	—	(151)	5,566
Stock-based compensation	—	—	9,367	—	—	9,367
<b>Balances at April 30, 2021</b>	236,568,394	\$ 24	\$ 733,581	\$ (101,664)	\$ 2,617,436	\$ 3,249,377

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

**Copart, Inc.**  
**Consolidated Statements of Stockholders' Equity (Continued)**  
(Unaudited)

(In thousands, except share amounts)	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Stockholders' Equity
	Outstanding Shares	Amount				
<b>Balances at July 31, 2019</b>	229,790,268	\$ 23	\$ 572,559	\$ (132,529)	\$ 1,338,328	\$ 1,778,381
Net income	—	—	—	—	218,180	218,180
Currency translation adjustment	—	—	—	13,239	—	13,239
Exercise of stock options, net of repurchased shares	2,643,310	—	9,551	—	(98,285)	(88,734)
Stock-based compensation	—	—	5,533	—	—	5,533
<b>Balances at October 31, 2019</b>	232,433,578	23	587,643	(119,290)	1,458,223	1,926,599
Net income	—	—	—	—	168,707	168,707
Currency translation adjustment	—	—	—	(580)	—	(580)
Exercise of stock options, net of repurchased shares	1,141,040	—	19,975	—	(68)	19,907
Stock-based compensation	—	—	6,141	—	—	6,141
Shares issued for Employee Stock Purchase Plan	62,067	—	3,955	—	—	3,955
<b>Balances at January 31, 2020</b>	233,636,685	23	617,714	(119,870)	1,626,862	2,124,729
Net income	—	—	—	—	147,487	147,487
Currency translation adjustment	—	—	—	(19,053)	—	(19,053)
Exercise of stock options, net of repurchased shares	1,064,329	—	23,062	—	(769)	22,293
Stock-based compensation	—	—	5,555	—	—	5,555
<b>Balances at April 30, 2020</b>	234,701,014	\$ 23	\$ 646,331	\$ (138,923)	\$ 1,773,580	\$ 2,281,011

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

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

(In thousands)	Nine Months Ended April 30,	
	2021	2020
<b>Cash flows from operating activities:</b>		
Net income	\$ 680,521	\$ 534,374
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including debt cost	93,141	76,756
Allowance for credit loss	(1,429)	1,332
Equity in (earnings) losses of unconsolidated affiliates	(2,121)	1,918
Stock-based compensation	27,145	17,229
Gain on sale of property and equipment	(1,257)	(1,745)
Deferred income taxes	(14,130)	9,265
Changes in operating assets and liabilities:		
Accounts receivable	(81,593)	19,102
Vehicle pooling costs	(12,777)	661
Inventories	(18,788)	1,209
Prepaid expenses and other current and non-current assets	6,879	6,268
Operating lease right-of-use assets and lease liabilities	389	(221)
Accounts payable and accrued liabilities	47,914	(15,636)
Deferred revenue	8,467	1,365
Income taxes receivable	16,152	(12,076)
Income taxes payable	13,692	9,168
Other liabilities	—	1,999
Net cash provided by operating activities	762,205	650,968
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(364,395)	(487,730)
Proceeds from sale of property and equipment	599	2,153
Purchase of assets in connection with acquisitions	—	(3,268)
Net cash used in investing activities	(363,796)	(488,845)
<b>Cash flows from financing activities:</b>		
Proceeds from the exercise of stock options	28,829	55,656
Proceeds from the issuance of Employee Stock Purchase Plan shares	4,880	3,955
Payments for employee stock-based tax withholdings	(938)	(102,191)
Payments of finance lease obligations	(962)	—
Net cash provided by (used in) financing activities	31,809	(42,580)
Effect of foreign currency translation	3,954	525
Net increase in cash, cash equivalents, and restricted cash	434,172	120,068
Cash, cash equivalents, and restricted cash at beginning of period	477,718	186,319
Cash, cash equivalents, and restricted cash at end of period	\$ 911,890	\$ 306,387
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 14,736	\$ 14,514
Income taxes paid, net of refunds	\$ 126,303	\$ 59,302

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



**Copart, Inc.**  
**Notes to Consolidated Financial Statements**  
**April 30, 2021**  
**(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. Vehicle sellers consist primarily of insurance companies, but also include banks, finance companies, charities, fleet operators, dealers, and from some individuals. The Company sells principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers, exporters, and in some jurisdictions, 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, and Bahrain, 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.”), Germany, and Spain, the Company operates both as an agent and on a principal basis, in some cases purchasing 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 April 30, 2021 and July 31, 2020, its consolidated statements of income, comprehensive income and stockholders’ equity for the three and nine months ended April 30, 2021 and 2020, and its cash flows for the nine months ended April 30, 2021 and 2020. Interim results for the three and nine months ended April 30, 2021 are not necessarily indicative of the results that may be expected for any future period, or for the entire year ending July 31, 2021. 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, 2020. 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. Significant intercompany transactions and balances have been eliminated in consolidation.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments 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 may differ from these estimates.

***Revenue Recognition***

The Company’s primary performance obligation is the auctioning of consigned vehicles through an online auction process. Service revenue and vehicle sales revenue are recognized at the date the vehicles are sold at auction, excluding annual registration fees. 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’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 has a separate performance obligation related to providing access to its online auction platform as the Company charges members an annual registration fee for the right to participate in its online auctions and access the Company's bidding platform. This fee is 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 credit loss expense in the case of non-performance by its buyers or sellers.

(In thousands)	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
Service revenues				
United States	\$ 550,338	\$ 431,875	\$ 1,465,996	\$ 1,310,023
International	73,508	59,707	205,823	179,449
Total service revenues	\$ 623,846	\$ 491,582	\$ 1,671,819	\$ 1,489,472

### Vehicle sales

Certain vehicles are purchased and remarketed on the Company's own behalf. The Company has a single performance obligation related to the sale of these vehicles, which is the completion of the online auction process. Vehicle sales revenue is 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.

(In thousands)	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
Vehicle sales				
United States	\$ 71,615	\$ 35,323	\$ 171,135	\$ 104,076
International	38,449	23,455	100,927	86,376
Total vehicle sales	\$ 110,064	\$ 58,778	\$ 272,062	\$ 190,452

### 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 consolidated statements of income.

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

Balance as of July 31, 2020	\$	10,080
Capitalized contract assets during the period		265
Costs amortized during the period		(2,438)
Effect of foreign currency exchange rates		254
Balance as of April 30, 2021	\$	<u>8,161</u>

#### ***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. If the allocation factors change, then yard operation expenses could increase or decrease correspondingly in the future. These costs are expensed into yard operations expenses as vehicles are sold in subsequent periods on an average cost basis.

#### ***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 British pound, Canadian dollar, Brazilian real, European Union euro, U.A.E. dirham, Omani rial, and Bahraini dinar 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, 2019	\$	(132,529)
Gain on foreign currency translation		11,441
Cumulative loss on foreign currency translation as of July 31, 2020	\$	(121,088)
Gain on foreign currency translation		19,424
Cumulative loss on foreign currency translation as of April 30, 2021	\$	<u>(101,664)</u>

#### ***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 Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, 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, restricted cash, accounts receivable, accounts payable, accrued liabilities, and amounts outstanding under the Revolving Loan Facility approximated their fair values as of April 30, 2021 and July 31, 2020, 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 6 – Long-Term Debt* and *Note 7 – Fair Value Measures*.

### ***Cash, Cash Equivalents, and Restricted Cash***

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, cash equivalents, and restricted cash include cash held in checking, domestic certificates of deposit, U.S. Treasury Bills, and money market accounts. The Company periodically invests its excess cash in money market funds and U.S. Treasury Bills. The Company's cash, cash equivalents, and restricted cash are placed with high credit quality financial institutions.

### ***Capitalized Software Costs***

The Company capitalizes system development costs and website development costs related to the enterprise computing services during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, generally three to seven 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 April 30, 2021 and July 31, 2020 was \$63.1 million and \$52.6 million, respectively. Accumulated amortization expense related to software as of April 30, 2021 and July 31, 2020 totaled \$43.1 million and \$33.5 million, respectively.

### **NOTE 2 — Accounts Receivable, Net**

Accounts receivable, net consisted of:

<b>(In thousands)</b>	<b>April 30, 2021</b>	<b>July 31, 2020</b>
Advance charges receivable	\$ 337,758	\$ 260,196
Trade accounts receivable	99,584	94,281
Other receivables	2,855	2,120
	440,197	356,597
Less: Allowance for credit loss	(5,324)	(6,390)
Accounts receivable, net	<u>\$ 434,873</u>	<u>\$ 350,207</u>

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 — Property and Equipment, Net**

Property and equipment, net consisted of the following:

<b>(In thousands)</b>	<b>April 30, 2021</b>	<b>July 31, 2020</b>
Land	\$ 1,409,340	\$ 1,235,315
Buildings and improvements	1,075,383	932,976
Transportation and other equipment	313,091	274,422
Office furniture and equipment	76,846	70,926
Software	63,049	52,621
	2,937,709	2,566,260
Less: Accumulated depreciation and amortization	(710,178)	(624,541)
Property and equipment, net	<u>\$ 2,227,531</u>	<u>\$ 1,941,719</u>

Depreciation expense on property and equipment was \$30.2 million and \$24.5 million for the three months ended April 30, 2021 and 2020, respectively, and \$87.0 million and \$67.0 million for the nine months ended April 30, 2021 and 2020, respectively.

#### NOTE 4 – Leases

The Company has both lessee and lessor arrangements. The Company determines whether a contract is or contains a lease at the inception of the contract or at any subsequent modification. A contract will be deemed to be or contain a lease if the contract conveys the right to control and direct the use of identified property, plant, or equipment for a period of time in exchange for consideration. The Company generally must also have the right to obtain substantially all of the economic benefits from the use of the property, plant, and equipment. Depending on the terms, leases are classified as either operating or finance leases if the Company is the lessee, or as operating, sales-type, or direct financing leases if the Company is the lessor. Certain of the Company's lessee and lessor leases have renewal options to extend the leases for additional periods at the Company's discretion.

##### *Leases - Lessee*

The Company leases certain facilities and certain equipment under non-cancelable finance and operating leases, which are recorded as right-of-use assets and lease liabilities. Certain leases provide the Company with either a right of first refusal to acquire or an option to purchase a facility at fair value. Certain leases also contain escalation clauses and renewal option clauses calling for increased rents. Where a lease contains an escalation clause or a concession, such as a rent holiday or tenant improvement allowance, the Company includes these items in the determination of the right-of-use asset and the lease liabilities. The effects of these escalation clauses or concessions have been reflected in lease expense on a straight-line basis over the expected lease term and any variable lease payments subsequent to establishing the lease liability are expensed as incurred. The lease term commences on the date when the Company has the right to control the use of the leased property, which is typically before lease payments are due under the terms of the lease. Certain of the Company's leases have renewal periods up to 40 years, exercisable at the Company's option, and generally require the Company to pay property taxes, insurance and maintenance costs, in addition to the lease payments. At lease inception, the Company includes all renewals or option periods that are reasonably certain to exercise when determining the expected lease term, as failure to renew the lease would impose an economic penalty.

Operating lease assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the expected lease term. To determine the present value of lease payments not yet paid, the Company estimates incremental borrowing rates based on the information available at lease commencement date, as rates are not implicitly stated in the Company's leases.

Components of lease expense were as follows:

(In thousands)	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
Operating lease expense	\$ 7,040	\$ 8,755	\$ 21,321	\$ 24,437
Finance lease expense:				
Amortization of right-of-use assets	167	341	501	653
Interest on finance lease liabilities	16	37	60	51
Short-term lease expense	1,037	3,784	3,305	7,076
Variable lease expense	278	382	1,212	1,201
Total lease expense	\$ 8,538	\$ 13,299	\$ 26,399	\$ 33,418

Supplemental cash flow information related to leases as of April 30, 2021 were as follows:

(In thousands)	Nine Months Ended April 30,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows related to operating leases	\$ 21,855	\$ 22,035
Operating cash flows related to finance leases	32	46
Financing cash flows related to finance leases	962	748
Right-of-use assets obtained in exchange for new operating lease liabilities	37,120	25,301
Right-of-use assets obtained in exchange for new finance lease liabilities	6,251	7,053

### Leases - Lessor

The Company's lessor arrangements include certain facilities and various land locations, of which each qualifies as an operating lease. Certain leases also contain escalation clauses and renewal option clauses calling for increased rents. Where a lease contains an escalation clause or a concession, such as a rent holiday or tenant improvement allowance, the Company includes these items in the determination of the straight-line rental income. The effects of these escalation clauses or concessions have been reflected in lease payments receivable on a straight-line basis over the expected lease term and any variable lease income subsequent to establishing the receivable will be recognized as earned.

The cost of the leased space as of April 30, 2021 and July 31, 2020 was \$48.5 million and \$64.8 million, respectively. The accumulated depreciation associated with the leased assets as of April 30, 2021 and July 31, 2020 was \$1.6 million and \$0.9 million, respectively. Both the leased assets and accumulated depreciation are included in Property and equipment, net on the consolidated balance sheet. Rental income from these operating leases was \$3.5 million and \$2.8 million for the three months ended April 30, 2021 and 2020, respectively, and \$10.7 million and \$3.4 million for the nine months ended April 30, 2021 and 2020, respectively and is included within Service revenues on the consolidated statements of income.

### NOTE 5 – Goodwill and Intangible Assets

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

(In thousands)	April 30, 2021	July 31, 2020
Amortized intangibles:		
Supply contracts and customer relationships	\$ 50,573	\$ 50,600
Trade names	23,682	23,635
Licenses and databases	7,645	7,630
Accumulated amortization	(39,365)	(34,093)
Net intangibles	<u>\$ 42,535</u>	<u>\$ 47,772</u>

Aggregate amortization expense on amortizable intangible assets was \$1.8 million and \$2.2 million for the three months ended April 30, 2021 and 2020, respectively, and \$5.3 million and \$7.0 million for the nine months ended April 30, 2021 and 2020, respectively.

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

(In thousands)	
Balance as of July 31, 2020	\$ 343,622
Effect of foreign currency exchange rates	3,893
Balance as of April 30, 2021	<u>\$ 347,515</u>

### NOTE 6 – Long-Term Debt

#### Credit Agreement

On July 21, 2020, the Company entered into a First Amended and Restated Credit Agreement with Wells Fargo Bank, National Association, Truist Bank (as successor by merger to Suntrust Bank), BMO Harris Bank N.A., Santander Bank, N.A., and Bank of America, N.A., as administrative agent (as amended from time to time, the "Credit Amendment"), bringing the aggregate principal amount of the revolving credit commitments under the Credit Agreement (the "Revolving Loan Facility"), to \$1,050.0 million.

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 approximated fair value at April 30, 2021, and was classified within Level II of the fair value hierarchy.

The interest rate as of April 30, 2021 on the Company's Revolving Loan Facility was the Eurodollar Rate of 0.75% plus an applicable margin of 1.50%. Amounts borrowed under the Revolving Loan Facility may be repaid and reborrowed until the maturity date of July 21, 2023. The Company had no outstanding borrowings under the Revolving Loan Facility as of April 30, 2021 or July 31, 2020. The Credit Agreement contains customary affirmative and negative covenants and the Company was in compliance with all covenants related to the Credit Agreement as of April 30, 2021.

### 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. 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 Note Purchase Agreement contains customary affirmative and negative covenants and the Company was in compliance with all covenants related to the Note Purchase Agreement as of April 30, 2021.

### NOTE 7 – Fair Value Measures

The following table summarizes the carrying values and fair values of the Company’s financial instruments that were not carried at fair value in the consolidated balance sheets:

(In thousands)	April 30, 2021		July 31, 2020	
	Carrying Value Total	Fair Value Total	Carrying Value Total	Fair Value Total
<b>Assets</b>				
Cash equivalents	\$ 513,092	\$ 519,064	\$ 11,483	\$ 11,483
<b>Total Assets</b>	<u>\$ 513,092</u>	<u>\$ 519,064</u>	<u>\$ 11,483</u>	<u>\$ 11,483</u>
<b>Liabilities</b>				
Long-term fixed rate debt, including current portion	\$ 399,725	\$ 427,267	\$ 399,698	\$ 449,731
<b>Total Liabilities</b>	<u>\$ 399,725</u>	<u>\$ 427,267</u>	<u>\$ 399,698</u>	<u>\$ 449,731</u>

During the nine months ended April 30, 2021, no transfers were made between any levels within the fair value hierarchy. The fair value of the Senior Notes is based on the discounted value of each interest and principal payment calculated utilizing market interest rates of similar types of borrowing arrangements and was classified within Level II of the fair value hierarchy. See *Note 1 – Summary of Significant Accounting Policies*, and *Note 6 – Long-Term Debt*.

### NOTE 8 – Net Income Per Share

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

(In thousands)	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
Weighted average common shares outstanding	236,396	234,133	236,110	232,647
Effect of dilutive securities	3,812	4,458	4,039	5,917
Weighted average common and dilutive potential common shares outstanding	<u>240,208</u>	<u>238,591</u>	<u>240,149</u>	<u>238,564</u>

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 1,280,000 and 200,167 options to purchase the Company’s common stock for the three months ended April 30, 2021 and 2020, respectively, and 3,180,000 and 400,167 options to purchase the Company’s common stock for the nine months ended April 30, 2021 and 2020, respectively, because their inclusion would have been anti-dilutive.

## NOTE 9 – Stock-based Compensation

The Company recognizes compensation expense for stock option awards, without a market condition, 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 nine months ended April 30, 2021:

<u>(In thousands, except per share and term data)</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (In years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding as of July 31, 2020	8,059	\$ 41.44	6.72	\$ 417,529
Grants of options	1,280	107.45		
Exercises	(1,148)	25.12		
Forfeitures or expirations	(212)	47.14		
Outstanding as of April 30, 2021	<u>7,979</u>	\$ 54.23	6.68	\$ 560,800
Exercisable as of April 30, 2021	<u>4,295</u>	\$ 33.26	5.11	\$ 391,925

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 7,978,966 at April 30, 2021.

In June 2020, the Compensation Committee of the Company's Board of Directors approved the grant to A. Jayson Adair, the Company's Chief Executive Officer, of nonqualified stock options to purchase 1,000,000 shares of the Company's common stock at an exercise price of \$85.04 per share, which equaled the closing price of the Company's common stock on June 12, 2020, the effective date of grant. The option will become exercisable over five years, subject to continued service by Mr. Adair, with 20% vesting on June 12, 2021, and the balance vesting monthly over the subsequent four years. Separate and apart from the time-based vesting schedule, the options are also subject to market based vesting, such that no options will be exercisable unless and until the average closing price in trading of Copart, Inc., common stock on the NASDAQ Global Select Market is greater than or equal to \$106.30 per share (which is an amount equivalent to 125% of the exercise price of the options) for a period of 20 consecutive trading days. The market based vesting condition was satisfied in the first quarter of fiscal 2021. The option held by Mr. Adair will become fully vested, assuming continued service by Mr. Adair on June 12, 2025. The fair value of each option at the date of grant using the Monte Carlo simulation model was \$25.47, with an expected life of 7.64 years, a risk-free interest rate of 0.71%, estimated volatility of 25.2%, and no expected dividends. The total estimated compensation expense to be recognized by the Company over the five year estimated service period for these options is \$25.5 million and will be recognized using the accelerated attribution method over each vesting tranche of the award. The Company recognized \$10.9 million in compensation expense for this grant in the nine months ended April 30, 2021.

The table below sets forth the stock-based compensation recognized by the Company for stock options, restricted stock, and restricted unit awards:

<u>(In thousands)</u>	<u>Three Months Ended April 30,</u>		<u>Nine Months Ended April 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
General and administrative	\$ 7,966	\$ 4,113	\$ 22,399	\$ 13,258
Yard operations	1,401	1,442	4,746	3,971
Total stock-based compensation	<u>\$ 9,367</u>	<u>\$ 5,555</u>	<u>\$ 27,145</u>	<u>\$ 17,229</u>

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.

The Company's restricted stock awards ("RSA") and restricted stock unit awards ("RSU") have generally been issued with vesting periods ranging from two years to five years and vest solely on service conditions. Accordingly, the Company recognizes compensation expense for RSA and RSU 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 RSA's and RSU's for the nine months ended April 30, 2021:

<u>(In thousands, except per share data)</u>	<u>Restricted Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding as of July 31, 2020	105	\$ 69.86
Grants	47	111.52
Vested	(26)	70.43
Forfeitures or expirations	(6)	65.17
Outstanding as of April 30, 2021	<u>120</u>	\$ 86.18



## NOTE 10 – 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 did not repurchase any shares of its common stock under the program during the nine months ended April 30, 2021 or 2020. As of April 30, 2021, 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 2020, the Company's Chief Executive Officer exercised all of his vested stock options through a cashless exercise. A portion of the options exercised were net settled in satisfaction of the exercise price. The Company remitted \$101.3 million during the nine months ended April 30, 2020, to the proper taxing authorities in satisfaction of the employee's 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 <sup>(1)</sup>	Net Shares to Employee	Weighted Average Share Price for Withholding	Employee Stock-Based Tax Withholding (in 000s)
FY 2020—Q1	4,000,000	\$ 17.81	865,719	1,231,595	1,902,686	\$ 82.29	\$ 101,348

(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 11 – Income Taxes

The Company's effective income tax rates were 11.4% and 23.1% for the three months ended April 30, 2021 and 2020, respectively, and 17.3% and 10.8% for the nine months ended April 30, 2021 and 2020, respectively. The effective tax rate for the three and nine months ended April 30, 2021 was impacted by certain discrete tax items including a change in estimate made in connection with finalizing the Company's fiscal year 2020 tax return of \$19.8 million and the recognition of excess tax benefits from stock-based compensation. The recognition of excess tax benefits from stock-based compensation was \$4.9 million and \$8.8 million for the three months ended April 30, 2021 and 2020, respectively, and \$18.9 million and \$86.0 million for the nine months ended April 30, 2021 and 2020, respectively.

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.

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 2018. 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.

## NOTE 12 – Recent Accounting Pronouncements

### Pending

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*. ASU 2019-12 eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. It also clarifies and simplifies other aspects of the accounting for income taxes. This guidance is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company's adoption of ASU 2019-12 is not expected to have a material impact on the Company's consolidated results of operations and financial position.

### Adopted

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 was effective for fiscal years beginning after December 15, 2019. The Company's adoption of ASU 2017-04 did not have a material impact on the Company's consolidated results of operations and financial position.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. ASU 2016-13 requires entities to use a current lifetime expected credit loss methodology to measure impairments of certain financial assets. Using this methodology will result in earlier recognition of losses than the previous incurred loss approach, which required waiting to recognize a loss until it was probable of having been incurred. There are other provisions within the standard that affect how impairments of other financial assets may be recorded and presented, and that expand disclosures. This pronouncement was effective for fiscal years beginning after December 15, 2019, and was required to be applied on a modified retrospective basis. The Company's adoption of ASU 2016-13 did not have a material impact on the Company's consolidated results of operations, financial position, and related disclosures.

**NOTE 13 – 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. There are no material pending legal proceedings to which the Company is a party, or with respect to which any of the Company's property is subject.

The Company provides for costs relating to matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of any such 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 any such matters. The Company believes that any ultimate liability would not have a material effect on its consolidated results of operations, financial position, or cash flows. However, the amount of the liabilities associated with 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.

**NOTE 14 – 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 and operating income.

The following table presents financial information by segment:

(In thousands)	Three Months Ended April 30, 2021			Three Months Ended April 30, 2020		
	United States	International	Total	United States	International	Total
Service revenues	\$ 550,338	\$ 73,508	\$ 623,846	\$ 431,875	\$ 59,707	\$ 491,582
Vehicle sales	71,615	38,449	110,064	35,323	23,455	58,778
Total service revenues and vehicle sales	621,953	111,957	733,910	467,198	83,162	550,360
Yard operations	218,672	39,399	258,071	217,190	36,570	253,760
Cost of vehicle sales	63,012	31,486	94,498	34,032	19,955	53,987
General and administrative	43,543	9,687	53,230	37,156	10,356	47,512
Operating income	\$ 296,726	\$ 31,385	\$ 328,111	\$ 178,820	\$ 16,281	\$ 195,101
Depreciation and amortization	\$ 28,161	\$ 3,805	\$ 31,966	\$ 23,764	\$ 2,951	\$ 26,715
Capital expenditures and acquisitions	59,006	22,175	81,181	86,441	4,205	90,646
(In thousands)	Nine Months Ended April 30, 2021			Nine Months Ended April 30, 2020		
	United States	International	Total	United States	International	Total
Service revenues	\$ 1,465,996	\$ 205,823	\$ 1,671,819	\$ 1,310,023	\$ 179,449	\$ 1,489,472
Vehicle sales	171,135	100,927	272,062	104,076	86,376	190,452
Total service revenues and vehicle sales	1,637,131	306,750	1,943,881	1,414,099	265,825	1,679,924
Yard operations	612,198	113,588	725,786	641,298	110,604	751,902
Cost of vehicle sales	153,119	79,368	232,487	98,991	71,660	170,651
General and administrative	124,044	26,638	150,682	118,327	28,660	146,987
Operating income	\$ 747,770	\$ 87,156	\$ 834,926	\$ 555,483	\$ 54,901	\$ 610,384
Depreciation and amortization	\$ 82,068	\$ 10,239	\$ 92,307	\$ 66,101	\$ 7,910	\$ 74,011
Capital expenditures and acquisitions	303,060	61,335	364,395	461,072	29,926	490,998
(In thousands)	April 30, 2021			July 31, 2020		
	United States	International	Total	United States	International	Total
Total assets	\$ 3,604,803	\$ 677,143	\$ 4,281,946	\$ 2,904,216	\$ 551,045	\$ 3,455,261
Goodwill	262,423	85,092	347,515	262,423	81,199	343,622

**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), including forward-looking statements concerning the potential impact of the COVID-19 pandemic on our business, operations, and operating results. 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 II, 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 providing environmental and social benefits for the world around us. With respect to our environmental stewardship, we believe our business is a critical enabler for the global re-use and recycling of vehicles, parts, and raw materials. We are not responsible for the carbon emissions resulting from new vehicle manufacturing, governmental fuel emissions standards or vehicle use by consumers. Each vehicle that enters our business operations already exists, with whatever fuel technology and efficiency it was designed and built to have, and the substantial carbon emissions associated with the vehicle's manufacture have already occurred. However, upon our receipt of an existing vehicle, we help decrease its total environmental impact by extending its useful life and thereby avoiding the carbon emissions associated with the alternative of new vehicle and auto parts manufacturing. For example, many of the cars we process and remarket are subsequently restored to drivable condition, reducing the new vehicle manufacturing burden the world would otherwise face. Many of our cars are purchased by dismantlers, who recycle and refurbish parts for vehicle repairs, again reducing new and aftermarket parts manufacturing. And finally, some of our vehicles are returned to their raw material inputs through scrapping, reducing the need for further new resource extraction. In each of these cases, our business reduces the carbon and other environmental footprint of the global transportation industry. Beyond our environmental stewardship, we also support the world's communities in two important ways. First, we believe that we contribute to economic development and well-being by enabling more affordable access to mobility around the world. For example, many of the automobiles sold through our auction platform are purchased for use in developing countries where affordable transportation is a critical enabler of education, health care, and well-being more generally. Secondly, because of the special role we play in responding to catastrophic weather events, we believe we contribute to disaster recovery and resilience in the communities we serve. For example, we mobilized our people, entered into emergency leases, and engaged with a multitude of service providers to timely retrieve, store, and remarket tens of thousands of flood-damaged vehicles in the Houston, Texas metropolitan area in the wake of Hurricane Harvey in the summer of 2017.

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 from some individuals. We sell the vehicles principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers, exporters, and in some jurisdictions, to the general public. The majority of the vehicles sold on behalf of insurance companies are either damaged vehicles deemed a total loss; 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, and Bahrain, 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., Germany, and Spain 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) market demand for rebuildable, drivable vehicles; (ii) used car pricing, which we also believe has an impact on total loss frequency; (iii) end market demand for recycled and refurbished parts as reflected in demand from dismantlers; (iv) the mix of cars sold; (v) changes in the U.S. dollar exchange rate to foreign currencies, which we believe has an impact on auction participation by international buyers, and; (vi) 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. 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 repair 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 change in used car values and repair costs, which we believe are generally trending upward. Changes in used car prices and repair costs, may impact total loss frequency and 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 11.9 years in 2020. Repair costs are generally based on damage severity, vehicle complexity, repair parts availability, repair parts costs, labor costs, and repair shop lead times. 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.

Beginning in March 2020, our business and operations began to experience the impact of the worldwide COVID-19 pandemic. In materially all of our jurisdictions, we have been deemed by local authorities an essential business because our operations ensure the removal of vehicles from repair shops, impound yards, and streets and highways, enabling the critical function of road infrastructure. As a result, we have continued to operate our facilities as well as our online-only auctions, while following appropriate health and safety protocols to ensure safe working conditions for our employees as well as for our sellers, buyers, and other business partners with whom we come in contact.

From a financial perspective, our operating results were adversely affected by lower processed vehicle volume, but these adverse effects were more than offset by corresponding increases in vehicle average sales prices. Although we initially saw substantial declines in vehicle assignments following the onset of the COVID-19 pandemic, which we attribute principally to reduced accident volume as miles driven dramatically declined in response to shelter-in-place orders across the globe, we have generally seen vehicle assignment volumes steadily recovering; however additional subsequent shelter-in-place orders have occasionally stalled or regressed the assignment volume commensurate with the severity and duration of such orders. We cannot predict how the pandemic will continue to develop, whether and to what extent new shelter-in-place orders will be issued, or to what extent the pandemic may have longer term unanticipated impacts on our markets, including, for example, the risk of long-term reductions in miles driven.

Although we have been deemed an “essential business” in the jurisdictions in which we operate and have largely been able to continue our yard operations, we have been required to make adjustments in our business processes that may reduce efficiency or increase operating expenses, particularly if the pandemic continues over a long period of time. We adjusted, but did not make material modifications to, our operating expenses to be able to continue providing employment for our employees, service to our sellers, and process incoming vehicles for sale in future quarters. The pandemic may have an adverse effect on our future revenues, with the magnitude and timing of these effects dependent upon the extent and duration of suspended economic activity across our markets. We believe that the longer-term impact on our business will depend on potential adverse operational impacts from outbreaks of COVID-19 at any of our locations; additional outbreaks of COVID-19 in one or more of our geographic markets; a reduction in miles driven due to one or more factors relating to the COVID-19 pandemic; any further government actions in response to COVID-19 outbreaks that restrict business activity or travel; disruptions of governmental administrative operations due to COVID-19 outbreaks that adversely impact our core business activities, such as vehicle title processing; and deteriorating economic conditions generally, and the potential availability, among other things, of vaccines or treatments, none of which we can predict. For a further discussion of risks to our business and operating results arising from the pandemic, please see the section of this Quarterly Report on Form 10-Q captioned “*Risk Factors*.”

**Operating Costs and Expenses:** Yard operations expenses consist primarily of operating personnel (which includes yard management, clerical, and yard employees); rent; vehicle transportation; insurance; property related taxes; fuel; equipment maintenance and repair; marketing costs directly related to the auction process; and costs of vehicles sold under the purchase contracts. General and administrative expenses consist primarily of executive management; accounting; data processing; sales personnel; professional services; marketing expenses; and system maintenance and enhancements.

**Other (Expense) Income:** Other (expense) income consists primarily of interest expense on long-term debt, see Notes to Unaudited Consolidated Financial Statements, *Note 6 – Long-Term Debt*; foreign exchange rate gains and losses; gains and losses from the disposal of assets, which will fluctuate based on the nature of these activities each period; and earnings from unconsolidated affiliates.

**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) 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; (xii) our capital expenditures; and (xiii) other macroeconomic factors such as COVID-19. 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 and liquidity 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 and liquidity is the issuance of additional debt or 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 global coverage for our sellers. All of these acquisitions have been accounted for using the purchase method of accounting.

The following tables set forth operational facilities that we have opened and began operations from August 1, 2019 through April 30, 2021:

United States Locations	Date
Fort Wayne, Indiana	February 2020
Concord, North Carolina	March 2020
Salt Lake City, Utah	May 2020
Redding, California	August 2020
Dothan, Alabama	August 2020
Jacksonville, Florida	August 2020
Milwaukee, Wisconsin	September 2020
Houston, Texas	December 2020
Knightdale, North Carolina	March 2021

International Locations	Geographic Service Area	Date
Niederlehme, Brandenburg (Berlin)	Germany	November 2019
Pilsting, Bavaria (Munich)	Germany	December 2019
São Paulo, São Paulo	Brazil	May 2020
Bruchmühlbach-Miesau, Rhineland-Palatinate (Mannheim)	Germany	February 2021
Mallorca, Balearic Islands	Spain	April 2021

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, including foreign markets; (ii) pursuing global, 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 nine months ended April 30, 2021 and 2020:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
Service revenues and vehicle sales:				
Service revenues	85 %	89 %	86 %	89 %
Vehicle sales	15 %	11 %	14 %	11 %
Total service revenues and vehicle sales	100 %	100 %	100 %	100 %
Operating expenses:				
Yard operations	35 %	46 %	37 %	45 %
Cost of vehicle sales	13 %	10 %	12 %	10 %
General and administrative	7 %	8 %	8 %	9 %
Total operating expenses	55 %	64 %	57 %	64 %
Operating income	45 %	36 %	43 %	36 %
Other expense	(1)%	(1)%	(1)%	(1)%
Income before income taxes	44 %	35 %	42 %	35 %
Income taxes	5 %	8 %	7 %	4 %
Net income	39 %	27 %	35 %	31 %

## Comparison of the Three and Nine Months Ended April 30, 2021 and 2020

The following table presents a comparison of service revenues for the three and nine months ended April 30, 2021 and 2020:

(In thousands)	Three Months Ended April 30,				Nine Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Service revenues								
United States	\$ 550,338	\$ 431,875	\$ 118,463	27.4 %	\$ 1,465,996	\$ 1,310,023	\$ 155,973	11.9 %
International	73,508	59,707	13,801	23.1 %	205,823	179,449	26,374	14.7 %
Total service revenues	<u>\$ 623,846</u>	<u>\$ 491,582</u>	<u>\$ 132,264</u>	26.9 %	<u>\$ 1,671,819</u>	<u>\$ 1,489,472</u>	<u>\$ 182,347</u>	12.2 %

**Service Revenues.** The increase in service revenues during the three months ended April 30, 2021 of \$132.3 million, or 26.9%, as compared to the same period last year resulted from (i) an increase in the U.S. of \$118.5 million and (ii) an increase in International of \$13.8 million. The growth in the U.S. was driven primarily by (i) an increase in revenue per car and (ii) an increase in volume as we lapse the negative impacts of COVID-19 restrictions in the prior comparable period, which reduced accident volume as miles driven declined. Excluding the beneficial impact of \$4.8 million due to changes in foreign currency exchange rates, primarily from the change in the British pound, Brazilian real and European Union euro to U.S. dollar exchange rates, the growth in International of \$9.0

million was driven primarily by increased revenue per car, partially offset by decreased volume driven by the COVID-19 pandemic, which reduced accident volume as miles driven declined.

The increase in service revenues during the nine months ended April 30, 2021 of \$182.3 million, or 12.2%, as compared to the same period last year resulted from (i) an increase in the U.S. of \$156.0 million and (ii) an increase in International of \$26.4 million. The growth in the U.S. was driven primarily by (i) an increase in revenue per car, partially offset by (ii) a decrease in volume. The decrease in volume in the U.S. was driven by the COVID-19 pandemic, which reduced accident volume as miles driven declined. Excluding the beneficial impact of \$6.0 million due to changes in foreign currency exchange rates, primarily from the change in the British pound, Brazilian real and European Union euro to U.S. dollar exchange rates, the growth in International of \$20.4 million was driven primarily by increased revenue per car, partially offset by decreased volume driven by the COVID-19 pandemic, which reduced accident volume as miles driven declined.

The following table presents a comparison of vehicle sales for the three and nine months ended April 30, 2021 and 2020:

(In thousands)	Three Months Ended April 30,				Nine Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Vehicle sales								
United States	\$ 71,615	\$ 35,323	\$ 36,292	102.7 %	\$ 171,135	\$ 104,076	\$ 67,059	64.4 %
International	38,449	23,455	14,994	63.9 %	100,927	86,376	14,551	16.8 %
Total vehicle sales	\$ 110,064	\$ 58,778	\$ 51,286	87.3 %	\$ 272,062	\$ 190,452	\$ 81,610	42.9 %

**Vehicle Sales.** The increase in vehicle sales for the three months ended April 30, 2021 of \$51.3 million, or 87.3%, as compared to the same period last year resulted from (i) an increase in the U.S. of \$36.3 million and (ii) an increase in International of \$15.0 million. The increase in the U.S. was primarily the result of higher average auction selling prices, which we believe was due to a change in the mix of vehicles sold; increased demand; and reduced supply, and increased volume. Excluding a beneficial impact of \$3.3 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 increase in International of \$11.7 million was primarily the result of higher average auction selling prices and increased volume.

The increase in vehicle sales for the nine months ended April 30, 2021 of \$81.6 million, or 42.9%, as compared to the same period last year resulted from (i) an increase in the U.S. of \$67.1 million and (ii) an increase in International of \$14.6 million. The increase in the U.S. was primarily the result of higher average auction selling prices, which we believe was due to a change in the mix of vehicles sold; increased demand; and reduced supply, and increased volume. Excluding a beneficial impact of \$6.5 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 increase in International of \$8.1 million was primarily the result of higher average auction selling prices, partially offset by decreased volume driven by contractual shift from purchase contracts to fee based service contracts and COVID-19's impact on volume, which reduced accident volume as miles driven declined.

The following table presents a comparison of yard operations expenses for the three and nine months ended April 30, 2021 and 2020:

(In thousands)	Three Months Ended April 30,				Nine Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Yard operations expenses								
United States	\$ 218,672	\$ 217,190	\$ 1,482	0.7 %	\$ 612,198	\$ 641,298	\$ (29,100)	(4.5) %
International	39,399	36,570	2,829	7.7 %	113,588	110,604	2,984	2.7 %
Total yard operations expenses	\$ 258,071	\$ 253,760	\$ 4,311	1.7 %	\$ 725,786	\$ 751,902	\$ (26,116)	(3.5) %
Yard operations expenses, excluding depreciation and amortization								
United States	\$ 196,263	\$ 199,236	\$ (2,973)	(1.5) %	\$ 547,018	\$ 592,511	\$ (45,493)	(7.7) %
International	35,932	34,191	1,741	5.1 %	104,418	104,007	411	0.4 %
Yard depreciation and amortization								
United States	\$ 22,409	\$ 17,954	\$ 4,455	24.8 %	\$ 65,180	\$ 48,787	\$ 16,393	33.6 %
International	3,467	2,379	1,088	45.7 %	9,170	6,597	2,573	39.0 %



**Yard Operations Expenses.** The increase in yard operations expense for the three months ended April 30, 2021 of \$4.3 million, or 1.7%, as compared to the same period last year resulted from (i) an increase in International of \$2.8 million and (ii) an increase in the U.S. of \$1.5 million. Excluding depreciation and amortization, the decrease in the U.S. compared to the same period last year relates primarily to a decrease in the cost to process each car, partially offset by an increase in volume as we lapse the negative impacts of COVID-19 restrictions in the prior comparable period, which reduced accident volume as miles driven declined. The increase in International was primarily from the detrimental impact of \$2.8 million due to changes in foreign currency exchange rates, primarily from the change in the British pound, European Union euro, and Brazilian real to U.S. dollar exchange rate and an increase in the cost to process each car, partially offset by decrease in volume driven by the COVID-19 pandemic. Included in yard operations expenses were depreciation and amortization expenses. The increase in yard operations depreciation and amortization expenses during the three months ended April 30, 2021 as compared to the same period last year resulted primarily from depreciating new and expanded facilities placed into service in the U.S. and International locations.

The decrease in yard operations expense for the nine months ended April 30, 2021 of \$26.1 million, or 3.5%, as compared to the same period last year resulted from (i) a decrease in the U.S. of \$29.1 million, partially offset by (ii) an increase in International of \$3.0 million. Excluding depreciation and amortization, the decrease in the U.S. compared to the same period last year relates primarily to declines in volume driven by the COVID-19 pandemic, which reduced accident volume as miles driven declined and a decrease in the cost to process each car. The increase in International was primarily from the detrimental impact of \$4.1 million due to changes in foreign currency exchange rates, primarily from the change in the British pound, European Union euro, and Brazilian real to U.S. dollar exchange rate and an increase in the cost to process each car, partially offset by decrease in volume driven by the COVID-19 pandemic. Included in yard operations expenses were depreciation and amortization expenses. The increase in yard operations depreciation and amortization expenses nine months ended April 30, 2021 as compared to the same period last year resulted primarily from depreciating new and expanded facilities placed into service in the U.S. and International locations.

The following table presents a comparison of cost of vehicle sales for the three and nine months ended April 30, 2021 and 2020:

(In thousands)	Three Months Ended April 30,				Nine Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
<b>Cost of vehicle sales</b>								
United States	\$ 63,012	\$ 34,032	\$ 28,980	85.2 %	\$ 153,119	\$ 98,991	\$ 54,128	54.7 %
International	31,486	19,955	11,531	57.8 %	79,368	71,660	7,708	10.8 %
Total cost of vehicle sales	<u>\$ 94,498</u>	<u>\$ 53,987</u>	<u>\$ 40,511</u>	75.0 %	<u>\$ 232,487</u>	<u>\$ 170,651</u>	<u>\$ 61,836</u>	36.2 %

**Cost of Vehicle Sales.** The increase in cost of vehicle sales for the three months ended April 30, 2021 of \$40.5 million, or 75.0%, as compared to the same period last year resulted from (i) an increase in the U.S. of \$29.0 million and (ii) an increase in International of \$11.5 million. The increase in the U.S. was primarily the result of increased volume and higher average purchase prices, which we believe was due to a change in the mix of vehicles sold; increased demand; and reduced supply. Excluding the detrimental impact of \$2.7 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 increase in International of \$8.8 million was primarily the result of higher average purchase prices and increased volume driven by the mix of vehicles purchased.

The increase in cost of vehicle sales for the nine months ended April 30, 2021 of \$61.8 million, or 36.2%, as compared to the same period last year resulted from (i) an increase in the U.S. of \$54.1 million and (ii) an increase in International of \$7.7 million. The increase in the U.S. was primarily the result of increased volume and higher average purchase prices, which we believe was due to a change in the mix of vehicles sold; increased demand; and reduced supply. Excluding the detrimental impact of \$5.3 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 increase in International of \$2.4 million was primarily the result of higher average purchase prices, partially offset by decreased volume driven by contractual shifts from purchase contracts to fee based service contracts and COVID-19's impact on volume, which reduced accident volume as miles driven declined.

The following table presents a comparison of general and administrative expenses for the three and nine months ended April 30, 2021 and 2020:

(In thousands)	Three Months Ended April 30,				Nine Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
General and administrative expenses								
United States	\$ 43,543	\$ 37,156	\$ 6,387	17.2 %	\$ 124,044	\$ 118,327	\$ 5,717	4.8 %
International	9,687	10,356	(669)	(6.5)%	26,638	28,660	(2,022)	(7.1)%
Total general and administrative expenses	<u>\$ 53,230</u>	<u>\$ 47,512</u>	<u>\$ 5,718</u>	12.0 %	<u>\$ 150,682</u>	<u>\$ 146,987</u>	<u>\$ 3,695</u>	2.5 %
General and administrative expenses, excluding depreciation and amortization								
United States	\$ 37,791	\$ 31,346	\$ 6,445	20.6 %	\$ 107,156	\$ 101,013	\$ 6,143	6.1 %
International	9,349	9,784	(435)	(4.4)%	25,569	27,347	(1,778)	(6.5)%
General and administrative depreciation and amortization								
United States	\$ 5,752	\$ 5,810	\$ (58)	(1.0)%	\$ 16,888	\$ 17,314	\$ (426)	(2.5)%
International	338	572	(234)	(40.9)%	1,069	1,313	(244)	(18.6)%

**General and Administrative Expenses.** The increase in general and administrative expenses for the three months ended April 30, 2021 of \$5.7 million, or 12.0%, as compared to the same period last year resulted from (i) an increase in the U.S. of \$6.4 million, partially offset by (ii) a decrease in International of \$0.7 million. Excluding depreciation and amortization, the decrease in International of \$0.4 million resulted primarily from lower current period costs including decreased travel costs and the nonrecurrence of certain legal costs incurred in the same period last year. The increase in the U.S. of \$6.4 million resulted primarily from increases in stock compensation and increased legal costs. Depreciation and amortization expenses for the three months ended April 30, 2021 as compared to the same period last year was relatively flat in both the U.S. and International locations.

The increase in general and administrative expenses for the nine months ended April 30, 2021 of \$3.7 million, or 2.5%, as compared to the same period last year resulted from (i) a decrease in International of \$2.0 million and (ii) an increase in the U.S. of \$5.7 million. Excluding depreciation and amortization, the decrease in International of \$1.8 million resulted primarily from lower current period costs including decreased travel costs and the nonrecurrence of certain legal costs incurred in the same period last year. The increase in the U.S. of \$6.1 million resulted primarily from increases in stock compensation and increased legal costs, partially offset by decreases in payroll taxes from the exercise of employee stock options and travel costs. Depreciation and amortization expenses for the nine months ended April 30, 2021 as compared to the same period last year was relatively flat in both the U.S. and International locations.

The following table summarizes total other expense and income taxes for the three and nine months ended April 30, 2021 and 2020:

(In thousands)	Three Months Ended April 30,				Nine Months Ended April 30,			
	2021	2020	Change	% Change	2021	2020	Change	% Change
Total other expense	\$ (4,576)	\$ (3,301)	\$ (1,275)	(38.6)%	\$ (12,124)	\$ (11,428)	\$ (696)	(6.1)%
Income taxes	36,739	44,313	(7,574)	(17.1)%	142,281	64,582	77,699	120.3 %

**Other Expense.** The increase in total other expense for the three months ended April 30, 2021 of \$1.3 million as compared to the same period last year was primarily due to lower earnings of unconsolidated affiliates and lower currency gains in the current year.

The increase in total other expense for the nine months ended April 30, 2021 of \$0.7 million as compared to the same period last year was primarily due to higher earnings of unconsolidated affiliates, partially offset by lower currency gains in the current year, lower gains on the disposal of certain non-operating assets in the current year, and lower interest income earned in the current year.

**Income Taxes.** Our effective income tax rates were 11.4% and 23.1% for the three months ended April 30, 2021 and 2020, respectively, and 17.3%, and 10.8% for the nine months ended April 30, 2021 and 2020, respectively. The effective tax rate for the three and nine months ended April 30, 2021 was impacted by certain discrete tax items including a change in estimate made in connection with finalizing our fiscal year 2020 tax return of \$19.8 million and the recognition of excess tax benefits from stock-based compensation. The recognition of excess tax benefits from stock-based compensation was \$4.9 million and \$8.8 million for the three months ended April 30, 2021 and 2020, respectively, and \$18.9 million and \$86.0 million for the nine months ended April 30, 2021 and 2020, respectively. See Note 11 – *Income Taxes*.

## Liquidity and Capital Resources

The following table presents a comparison of key components of our liquidity and capital resources at April 30, 2021 and July 31, 2020 and for the nine months ended April 30, 2021 and 2020, respectively, excluding additional funds available to us through our Revolving Loan Facility:

<u>(In thousands)</u>	<u>April 30, 2021</u>	<u>July 31, 2020</u>	<u>Change</u>	<u>% Change</u>
Cash, cash equivalents, and restricted cash	\$ 911,890	\$ 477,718	\$ 434,172	90.9 %
Working capital	1,086,326	607,715	478,611	78.8 %
<b>Nine Months Ended April 30,</b>				
<u>(In thousands)</u>	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>% Change</u>
Operating cash flows	\$ 762,205	\$ 650,968	\$ 111,237	17.1 %
Investing cash flows	(363,796)	(488,845)	125,049	25.6 %
Financing cash flows	31,809	(42,580)	74,389	174.7 %
Capital expenditures and acquisitions	\$ (364,395)	\$ (490,998)	\$ 126,603	25.8 %

Cash, cash equivalents, and restricted cash and working capital increased \$434.2 million and \$478.6 million at April 30, 2021, respectively, as compared to July 31, 2020. Cash, cash equivalents, and restricted cash increased primarily due to cash generated from operations and proceeds from stock option exercises not fully offset by capital expenditures. Working capital increased primarily from cash generated from operations and timing of cash receipts and payments, partially offset by capital expenditures, certain income tax benefits related to stock option exercises, and timing of cash payments. Cash equivalents consisted of bank deposits, domestic certificates of deposit, U.S. Treasury Bills, and funds invested in money market accounts, which bear interest at variable rates.

Historically, we have financed our growth through cash generated from operations, public offerings of common stock, equity issued in conjunction with certain acquisitions and debt financing. Our primary source of cash generated by operations is from the collection of service fees and reimbursable advances from the proceeds of vehicle sales. We expect to continue to use cash flows from operations to finance our working capital needs and to develop and grow our business. In addition to our stock repurchase program, we are considering a variety of alternative potential uses for our remaining cash balances and our cash flows from operations. These alternative potential uses include additional stock repurchases, repayments of long-term debt, the payment of dividends, and acquisitions. For further detail, see Notes to Unaudited Consolidated Financial Statements, *Note 6 – Long-Term Debt* and *Note 10 – Stock Repurchases* and under the subheadings “*Credit Agreement*” and “*Note Purchase Agreement*” below.

Our business is seasonal as inclement weather during the winter months increases the frequency of accidents and consequently, the number of cars involved in accidents which the insurance companies salvage rather than repair. During the winter months, most of our facilities process 5% to 20% more vehicles than at other times of the year. Severe weather events, including but not limited to tornadoes, hurricanes, and hailstorms, can also impact our volumes. These increased volumes require the increased use of our cash to pay out advances and handling costs of the additional business.

The pandemic may also impact our liquidity, with the magnitude and timing of these effects dependent upon the extent and duration of suspended economic activity across our markets. The pandemic may impact our processed vehicle volume and corresponding vehicle average selling prices.

We believe that our currently available cash and cash equivalents and cash generated from operations will be sufficient to satisfy our operating and working capital requirements into the foreseeable future. We expect to acquire or develop additional locations and expand some of our current facilities in the foreseeable future. We may be required to raise additional cash through drawdowns on our Revolving Loan Facility or issuance of additional equity to fund this expansion. Although the timing and magnitude of growth through expansion and acquisitions are not predictable, the opening of new greenfield yards is contingent upon our ability to locate property that (i) is in an area in which we have a need for more capacity; (ii) has adequate size given the capacity needs; (iii) has the appropriate shape and topography for our operations; (iv) is reasonably close to a major road or highway; and (v) most importantly, has the appropriate zoning for our business. Costs to develop a new yard can range from \$3.0 to \$50.0 million, depending on size, location and developmental infrastructure requirements.

As of April 30, 2021, \$185.9 million of the \$911.9 million of cash, cash equivalents, and restricted cash was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., the repatriation of these funds could still be subject to the foreign withholding tax following the U.S. Tax Reform. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not require repatriation to fund our U.S. operations.

Net cash provided by operating activities increased for the nine months ended April 30, 2021 as compared to the same period in 2020 due to improved cash operating results primarily from an increase in service revenues and vehicle sales, declines in yard operations expenses, and changes in operating assets and liabilities. The change in operating assets and liabilities was primarily the result of a decrease in funds received in accounts receivable of \$100.7 million and a decrease in cash generated from the sale of inventory of \$33.4 million; partially offset by decreases in funds used to pay accounts payable of \$63.6 million and net income taxes receivable of \$32.8 million primarily related to excess tax benefits from stock option exercises.

Net cash used in investing activities decreased for the nine months ended April 30, 2021 as compared to the same period in 2020 due primarily to decreased capital expenditures. Our capital expenditures are primarily related to lease buyouts of certain facilities, acquiring land, opening and improving facilities, capitalized software development costs for new software for internal use and major software enhancements, and acquiring yard equipment. We continue to develop, expand and invest in new and existing facilities.

Net cash provided by (used in) financing activities increased for the nine months ended April 30, 2021 as compared to the same period in 2020 due primarily to lower payments for employee stock based tax withholdings, as discussed in further detail under the subheading "*Stock Repurchases*", and a decrease in proceeds from the exercise of stock options.

#### ***Credit Agreement***

On July 21, 2020, we entered into a First Amended and Restated Credit Agreement with Wells Fargo Bank, National Association, Truist Bank (as successor by merger to Suntrust Bank), BMO Harris Bank N.A., Santander Bank, N.A., and Bank of America, N.A., as administrative agent (as amended from time to time, the "Credit Amendment"), bringing the aggregate principal amount of the revolving credit commitments under the Credit Agreement (the "Revolving Loan Facility") to \$1,050.0 million.

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 approximated fair value at April 30, 2021, and was classified within Level II of the fair value hierarchy.

The interest rate as of April 30, 2021 on our Revolving Loan Facility was the Eurodollar Rate of 0.75% plus an applicable margin of 1.50%. Amounts borrowed under the Revolving Loan Facility may be repaid and reborrowed until the maturity date of July 21, 2023. We had no outstanding borrowings under the Revolving Loan Facility as of April 30, 2021 or July 31, 2020. The Credit Agreement contains customary affirmative and negative covenants and we were in compliance with all covenants related to the Credit Agreement as of April 30, 2021.

#### ***Note Purchase Agreement***

On December 3, 2014, we 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. We 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 Note Purchase Agreement contains customary affirmative and negative covenants and we were in compliance with all covenants related to the Note Purchase Agreement as of April 30, 2021.

#### ***Stock Repurchases***

On September 22, 2011, our 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 we deem appropriate and may be discontinued at any time. We did not repurchase any shares of our common stock under the program during the nine months ended April 30, 2021 or 2020. As of April 30, 2021, 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 2020, the Company's Chief Executive Officer exercised all of his vested stock options through a cashless exercise. A portion of the options exercised were net settled in satisfaction of the exercise price. We remitted \$101.3 million during the nine months ended April 30, 2020, to the proper taxing authorities in satisfaction of the employee's 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 <sup>(1)</sup>	Net Shares to Employee	Weighted Average Share Price for Withholding	Employee Stock-Based Tax Withholding (in 000s)
FY 2020—Q1	4,000,000	\$ 17.81	865,719	1,231,595	1,902,686	\$ 82.29	\$ 101,348

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

### Critical Accounting Policies and Estimates

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

Management has discussed the selection of critical accounting policies and estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to critical accounting policies and estimates in this Quarterly Report on Form 10-Q. There have been no significant changes to the critical accounting policies and estimates from what was disclosed in our Annual Report on [Form 10-K](#) for the fiscal year ended July 31, 2020 filed with the SEC on September 28, 2020. Our significant accounting policies are described in the Notes to Unaudited Consolidated Financial Statements, *Note 1 – Summary of Significant Accounting Policies* in this Quarterly Report on Form 10-Q.

### Recently Issued Accounting Standards

For a description of the new accounting standards that affect us, refer to the Notes to Unaudited Consolidated Financial Statements, *Note 12 – Recent Accounting Pronouncements*.

### Contractual Obligations and Commitments

There have been no material changes during the nine months ended April 30, 2021 to our contractual obligations disclosed in our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on [Form 10-K](#) for the fiscal year ended July 31, 2020, filed with the SEC on September 28, 2020.

### Off-Balance Sheet Arrangements

As of April 30, 2021, there are no off-balance sheet arrangements pursuant to Item 303(a)(4) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended.

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

There have been no material changes to the information required under this Item from what was disclosed in our Annual Report on [Form 10-K](#) for the fiscal year ended July 31, 2020, filed with the SEC on September 28, 2020.

#### **ITEM 4. CONTROLS AND PROCEDURES**

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

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), or Disclosure Controls, as of the end of the period covered by this Quarterly Report on Form 10-Q. This evaluation, or Controls Evaluation, was performed under the supervision and with the participation of management, including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”). Disclosure Controls are controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure Controls include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our Disclosure Controls include some, but not all, components of our internal control over financial reporting.

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

##### **(b) Changes in Internal Controls**

There have not been any changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

For a discussion of Legal Proceedings that affect us, refer to the Notes to Unaudited Consolidated Financial Statement, [Note 13 – Legal Proceedings](#) included in [Part I, Item 1](#) of this report.

### ITEM 1A. RISK FACTORS

Set forth below and elsewhere in this Quarterly Report on Form 10-Q and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. The descriptions below include any material changes to and supersede the description of the risk factors affecting our business previously disclosed in “Part I, Item 1A, Risk Factors” of our Annual Report on [Form 10-K](#) for the fiscal year ended July 31, 2020.

#### Risks Related to Our Business and Industry

**The worldwide COVID-19 pandemic may have an adverse impact on our near-term revenues principally as a result of lower auction inventories. The geographic extent, length, and economic impact of the pandemic is unknown, but it has the potential to adversely affect our business and operating results.**

After the initial onset of the COVID-19 pandemic in March 2020, we saw substantial declines in vehicle assignments, which we attribute principally to reduced accident volume as miles driven dramatically declined in response to shelter-in-place orders across the globe. We cannot predict how the pandemic will continue to develop, whether and to what extent new shelter-in-place orders will be issued, or to what extent the pandemic may have longer term unanticipated impacts on our markets, including, for example, the risk of long-term reductions in miles driven.

Although we have been deemed an “essential business” in the jurisdictions in which we operate and have largely been able to continue our yard operations, we have been required to make adjustments in our business processes that may reduce efficiency or increase operating expenses, particularly if the pandemic continues over a long period of time. Certain of the jurisdictions in which we operate, such as the U.K., have had more restrictive governmental actions than others, and subsequent shelter-in-place orders have occasionally stalled or regressed our assignment volumes commensurate with the severity and duration of such orders. To date, we have not made modifications that materially affect our operating expenses, and while we regularly monitor them, we may not be able to respond with sufficient speed to align revenues and operating expenses when necessary, which could result in a drop in our stock price as a result of our operating or net income for one or more fiscal periods being less than market expectations. Additional, non-exclusive examples of pandemic-related factors that could adversely affect our future business or operating results include the potential adverse operational impacts from outbreaks of COVID-19 at any of our locations; additional outbreaks of COVID-19 in one or more of our geographic markets; a reduction in miles driven due to one or more factors relating to the COVID-19 pandemic; any further government actions in response to COVID-19 outbreaks that restrict business activity or travel; disruptions of governmental administrative operations due to COVID-19 outbreaks that adversely impact our core business activities, such as vehicle title processing; and deteriorating economic conditions generally.

**We depend on a limited number of major vehicle sellers for a substantial portion of our revenues. The loss of one or more of these major sellers could adversely affect our consolidated results of operations and financial position, and an inability to increase our sources of vehicle supply could adversely affect our growth rates.**

Although no single customer accounted for more than 10% of our consolidated revenues during the nine months ended April 30, 2021, a limited number of vehicle sellers historically have collectively accounted for a substantial portion of our revenues. Vehicle sellers have terminated agreements with us in the past in particular markets, which has affected revenues in those markets. There can be no assurance that our existing agreements will not be canceled. Furthermore, there can be no assurance that we will be able to enter into future agreements with vehicle sellers or that we will be able to retain our existing supply of salvage vehicles. A reduction in vehicles from a significant vehicle seller or any material changes in the terms of an arrangement with a significant vehicle seller could have a material adverse effect on our consolidated results of operations and financial position. In addition, a failure to increase our sources of vehicle supply could adversely affect our earnings and revenue growth rates.

**Our expansion into markets outside the U.S., including expansions in Europe, Brazil, and the Middle East expose us to risks arising from operating in international markets. Any failure to successfully integrate businesses acquired or operational capabilities established outside the U.S. could have an adverse effect on our consolidated results of operations, financial position, or cash flows.**

We first expanded our operations outside the U.S. in fiscal 2003 with an acquisition in Canada. Subsequently, in fiscal 2007 and fiscal 2008 we made significant acquisitions in the U.K., followed by acquisitions in the U.A.E., Brazil, Germany, and Spain in fiscal 2013, expansions into Bahrain and Oman in fiscal 2015, expansion into the Republic of Ireland and India in fiscal 2016, and an acquisition in Finland in fiscal 2018. In addition, we continue to evaluate acquisitions and other opportunities outside of the U.S.

Acquisitions or other strategies to expand our operations outside of the U.S. pose substantial risks and uncertainties that could have an adverse effect on our future operating results. In particular, we may not be successful in realizing anticipated synergies from these acquisitions, or we may experience unanticipated costs or expenses integrating the acquired operations into our existing business. We have and may continue to incur substantial expenses establishing new yards and operations, acquiring buyers and sellers, and implementing shared services capabilities in international markets. Among other things, we plan to ultimately deploy our proprietary auction technologies at all of our foreign operations and we cannot predict whether this deployment will be successful or will result in increases in the revenues or operating efficiencies of any acquired companies relative to their historic operating performance. Integration of our respective operations, including information technology and financial and administrative functions, may not proceed as anticipated and could result in unanticipated costs or expenses such as capital expenditures that could have an adverse effect on our future operating results. We cannot provide any assurance that we will achieve our business and financial objectives in connection with these acquisitions or our strategic decision to expand our operations internationally. For example, although we continue to operate a technology and operations center in India for administrative support, we decided to suspend our salvage operations in India in fiscal 2018, which did not have a material effect on our consolidated results of operations and financial position, until the Indian market develops in a manner better suited to our business model.

As we continue to expand our business internationally, we will need to develop policies and procedures to manage our business on a global scale. Operationally, acquired businesses typically depend on key seller relationships, and our failure to maintain those relationships would have an adverse effect on our consolidated results of operations and could have an adverse effect on our future operating results. Moreover, success in opening and operating facilities in new markets can be dependent upon establishing new relationships with buyers and sellers, and our failure to establish those relationships could have an adverse effect on our consolidated results of operations and future operating results.

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

- the difficulty of managing and staffing foreign offices;
- the increased travel, infrastructure, and legal compliance costs associated with multiple international locations;
- the need to localize our product offerings, particularly the need to implement our online auction platform in foreign countries;
- the need to comply with complex foreign and U.S. laws and regulations that apply to our international operations;
- tariffs, trade barriers, trade disputes, and other regulatory or contractual limitations on our ability to operate in certain foreign markets;
- exposure to foreign currency exchange rate risk, which may have an adverse impact on our revenues and revenue growth rates;
- adapting to different business cultures, languages, and market structures, particularly where we seek to implement our auction model in markets where insurers have historically not played a substantial role in the disposition of salvage vehicles;
- repatriation of funds currently held in foreign jurisdictions to the U.S. may result in higher effective tax rates;
- military actions;
- public health issues, including but not limited to the COVID-19 pandemic;
- environmental issues;
- natural and man-made disasters; and
- political issues.

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

**Our business is exposed to risks associated with online commerce security and credit card fraud.**

Consumer concerns over the security of transactions conducted on the internet or the privacy of users may inhibit the growth of the internet and online commerce. To securely transmit confidential information such as customer credit card numbers, we rely on encryption and authentication technology. Unanticipated events or developments could result in a compromise or breach of the systems we use to protect customer transaction data. Furthermore, our servers may also be vulnerable to viruses transmitted via the internet and other points of access. While we proactively check for intrusions into our infrastructure, a new or undetected virus could cause a service disruption.



We maintain an information security program and our processing systems incorporate multiple levels of protection in order to address or otherwise mitigate these risks. Despite these mitigation efforts, there can be no assurance that we will be immune to these risks and not suffer losses in the future. Under current credit card practices, we may be held liable for fraudulent credit card transactions and other payment disputes with customers. As such, we have implemented certain anti-fraud measures, including credit card verification procedures. However, a failure to adequately prevent fraudulent credit card transactions could adversely affect our consolidated financial position and results of operations.

Our security measures may also be breached due to employee error, malfeasance, insufficiency, or defective design. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or customers' data. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and a loss of confidence in the security of our products and services that could have an adverse effect on our consolidated financial position and results of operations.

**Implementation of our online auction model in new markets may not result in the same synergies and benefits that we achieved when we implemented the model in the U.S., Canada, and the U.K.**

We believe that the implementation of our proprietary auction technologies across our operations over the last decade had a favorable impact on our results of operations by increasing the size and geographic scope of our buyer base, increasing the average selling price for vehicles sold through our sales, and lowering expenses associated with vehicle sales.

We implemented our online system across all of our U.S., Canada, and U.K. salvage yards beginning in fiscal 2004 and 2008, respectively, and experienced increases in revenues and average selling prices, as well as improved operating efficiencies in those markets. In considering new markets, we consider the potential synergies from the implementation of our model based in large part on our experience in the U.S., Canada, and the U.K. However, we cannot predict whether these synergies will also be realized in new markets.

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

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

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

We seek to increase our sales and profitability through the acquisition of additional facilities and the development of new facilities. For example, in fiscal 2021, we opened six new operational facilities in the U.S., one new operational facility in Germany, and one new operational facility in Spain. In fiscal 2020, we opened two new operational facilities in Germany, one new operational facility in Brazil, and three new operational facilities in the U.S. Acquisitions are difficult to identify and complete for a number of reasons, including competition among prospective buyers, the availability of affordable financing in the capital markets and the need to satisfy applicable closing conditions and obtain antitrust and other regulatory approvals on acceptable terms. There can be no assurance that we will be able to:

- continue to acquire additional facilities on favorable terms;
- expand existing facilities in no-growth regulatory environments;
- obtain or retain buyers, sellers, and sales volumes in new markets or facilities;
- increase revenues and profitability at acquired and new facilities;
- maintain the historical revenue and earnings growth rates we have been able to obtain through facility openings and strategic acquisitions;
- create new vehicle storage facilities that meet our current revenue and profitability requirements; or
- obtain necessary regulatory approvals under applicable antitrust and competition laws.

In addition, certain of the acquisition agreements under which we have acquired companies require the former owners to indemnify us against certain liabilities related to the operation of the company before we acquired it. In most of these agreements, however, the liability of the former owners is limited and certain former owners may be unable to meet their indemnification responsibilities. We cannot assure that these indemnification provisions will protect us fully or at all, and as a result we may face unexpected liabilities that adversely affect our financial statements. Any failure to continue to successfully identify and complete acquisitions and develop new facilities could have a material adverse effect on our consolidated results of operations and financial position.

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

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

- hire, train and manage additional qualified personnel;
- establish new relationships or expand existing relationships with vehicle sellers;
- identify and acquire or lease suitable premises on competitive terms;
- secure adequate capital; and
- maintain the supply of vehicles from vehicle sellers.

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

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

We rely primarily upon independent subhauers to pick up and deliver vehicles to and from our storage facilities in the U.S., Canada, Brazil, the Republic of Ireland, Germany, Finland, the U.A.E., Oman, Bahrain, and Spain. We also utilize, to a lesser extent, independent subhauers in the U.K. Our failure to pick up and deliver vehicles in a timely and accurate manner could harm our reputation and brand, which could have a material adverse effect on our business. Further, an increase in fuel cost may lead to increased prices charged by our independent subhauers, which may significantly increase our cost. We may not be able to pass these costs on to our sellers or buyers.

In addition to using independent subhauers, in the U.K. we utilize a fleet of company trucks to pick up and deliver vehicles from our U.K. storage facilities. In connection therewith, we are subject to the risks associated with providing trucking services, including inclement weather, disruptions in transportation infrastructure, accidents and related injury claims, availability and price of fuel, any of which could result in an increase in our operating expenses and reduction in our net income.

**New member programs could impact our operating results.**

We have or will initiate programs to open our auctions to the general public. These programs include the Registered Broker program through which the public can purchase vehicles through a registered member, and Copart Lounge programs through which registered members can open Copart storefronts in foreign markets with internet kiosks enabling the general public to search our inventory and purchase vehicles. Initiating programs that allow access to our online auctions to the general public will involve material expenditures and we cannot predict what future benefit, if any, will be derived. These programs could also create additional risks including heightened regulation and litigation risk related to vehicle sales to the general public, and heightened branding, reputational, and intellectual property risk associated with allowing Copart registered members to establish Copart-branded storefronts in foreign jurisdictions.

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

Mild weather conditions tend to result in a decrease in the available supply of salvage vehicles because traffic accidents decrease and fewer automobiles are damaged. Accordingly, mild weather can have an adverse effect on our salvage vehicle supply, only a portion of which are referred to as inventory, which would be expected to have an adverse effect on our revenue and operating results and related growth rates. Conversely, our salvage vehicle supply will tend to increase in poor weather such as a harsh winter or as a result of adverse weather-related conditions such as flooding. During periods of mild weather conditions, our ability to increase our revenues and improve our operating results and related growth will be increasingly dependent on our ability to obtain additional vehicle sellers and to compete more effectively in the market, each of which is subject to the other risks and uncertainties described in these sections. In addition, extreme weather conditions, although they increase the available supply of salvage cars, can have an adverse effect on our operating results. For example, during fiscal 2006, fiscal 2013 and fiscal 2018, we recognized substantial additional costs associated with Hurricanes Katrina, Rita, Sandy, and Harvey. Weather events have had, in certain quarters, an adverse effect on our operating results, in part because of yard capacity constraints in the impacted areas of the U.S. These additional costs

were characterized as “abnormal” under ASC 330, *Inventory*, and included premiums for subhaulers, payroll, equipment, and facilities expenses directly related to the operating conditions created by the hurricanes. In the event that we were to again experience extremely adverse weather or other anomalous conditions that result in an abnormally high number of salvage vehicles in one or more of our markets, those conditions could have an adverse effect on our future operating results.

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

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

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

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

We may also encounter significant competition for local, regional, and national supply agreements with vehicle sellers. There can be no assurance that the existence of other local, regional, or national contracts entered into by our competitors will not have a material adverse effect on our business or our expansion plans. Furthermore, we are likely to face competition from major competitors in the acquisition of vehicle storage facilities, which could significantly increase the cost of such acquisitions and thereby materially impede our expansion objectives or have a material adverse effect on our consolidated results of operations. These potential new competitors may include consolidators of automobile dismantling businesses, organized salvage vehicle buying groups, automobile manufacturers, automobile auctioneers and software companies. While most vehicle sellers have abandoned or reduced efforts to sell salvage vehicles directly without the use of service providers such as us, there can be no assurance that this trend will continue, which could adversely affect our market share, consolidated results of operations and financial position. Additionally, existing or new competitors may be significantly larger and have greater financial and marketing resources than us; therefore, there can be no assurance that we will be able to compete successfully in the future.

#### **Risks Related to Regulatory Compliance and Legal Matters**

**Our business activities and public policy interests expose us to political, regulatory, economic, and reputational risks.**

Our business activities, facilities expansions, and civic and public policy interests may be unpopular in certain communities, exposing us to reputational and political risk. For example, public opposition in some communities to different aspects of our business operations has impacted our ability to obtain required business use permits. Additionally, our interests in legislative and regulatory processes at different levels of government in the geographies in which we operate have been opposed by competitors and other interest groups. Although we believe we generally enjoy positive community relationships and political support in our range of operations, shifting public opinion sentiments and sociopolitical dynamics could have an adverse effect on our business and reputation.

**Our operations and acquisitions in the U.S. and certain foreign areas expose us to political, regulatory, economic, and reputational risks.**

Although we have implemented policies, procedures, and training designed to ensure compliance with anti-bribery laws, trade controls and economic sanctions, and similar regulations, our employees or agents may take actions in violation of our policies. We may incur costs or other penalties in the event that any such violations occur, which could have an adverse effect on our business and reputation.

In some cases, the enforcement practices of governmental regulators in certain foreign areas and the procedural and substantive rights and remedies available to us may vary significantly from those in the United States, which could have an adverse effect on our business.

Although we face risks associated with international expansion in each of the non-U.S. markets where we operate, our current focus on the German market heightens the risks we face relating to our expansion plans in Germany.

In addition, some of our recent acquisitions have required us to integrate non-U.S. companies which had not, until our acquisition, been subject to U.S. law. In many countries outside of the United States, particularly in those with developing economies, it may be common for persons to engage in business practices prohibited by laws and regulations applicable to us, such as the U.S. Foreign Corrupt Practices Act (“FCPA”), U.K. Bribery Act, Brazil Clean Companies Act, India’s Prevention of Corruption Act, 1988 or similar local anti-bribery laws. These laws generally prohibit companies and their employees or agents from making improper payments for the purpose of obtaining or retaining business. Failure by us and our subsidiaries to comply with these laws could subject us to civil and criminal penalties that could have a material adverse effect on our consolidated operating results and financial position.

On January 29, 2020, the European Parliament approved the U.K.’s withdrawal from the European Union, commonly referred to as “Brexit.” The U.K. officially left the European Union on January 31, 2020. The ultimate effects of Brexit on us are difficult to predict, but adverse consequences concerning Brexit or the European Union could include deterioration in global economic conditions, instability in global financial markets, political uncertainty, volatility in currency exchange rates, or adverse changes in the cross-border agreements currently in place, any of which could have an adverse impact on our financial results in the future.

In addition, certain acquisitions in the U.K. may be reviewed by the Competition and Markets Authority (“U.K. Regulator”). If an inquiry is made by the U.K. Regulator, we may be required to demonstrate that our acquisitions will not result, or be expected to result, in a substantial lessening of competition in the U.K. market. Although we believe that there will not be a substantial lessening of competition in the U.K. market, based on our analysis of the relevant U.K. markets, there can be no assurance that the U.K. Regulator will agree with us if it decides to make an inquiry. If the U.K. Regulator determines that by our acquisitions of certain assets, there is or likely will be a substantial lessening of competition in the U.K. market, we could be required to divest some portion of our U.K. assets. In the event of a divestiture order by the U.K. Regulator, the assets disposed may be sold for substantially less than their carrying value. Accordingly, any divestiture could have a material adverse effect on our operating results in the period of the divestiture.

**We face risks associated with the implementation of our salvage auction model in markets that may not operate on the same terms as the U.S. market. For example, certain markets operate on a principal rather than agent basis, which may have an adverse impact on our gross margin percentages and expose us to inventory risks that we do not experience in the U.S.**

Some of our target markets outside the U.S. operate in a manner substantially different than our historic market in the U.S. For example, new markets may operate either wholly or partially on the principal model, in which the vehicle is purchased and then resold for our own account, rather than the agency model employed in the U.S., in which we generally act as a sales agent for the legal owner of vehicles. Further, operating on a principal basis exposes us to inventory risks, including losses from theft, damage, and obsolescence. In addition, our business in the U.S., Canada, and the U.K. has been established and grown based largely on our ability to build relationships with insurance carriers. In other markets, including Germany, insurers have traditionally been less involved in the disposition of salvage vehicles. As we expand into markets outside the U.S., Canada, and the U.K., including Germany in particular, we cannot predict whether markets will readily adapt to our strategy of online auctions of automobiles sourced principally through vehicle insurers. Any failure of new markets to adopt our business model could adversely affect our consolidated results of operations and financial position.

Acquisitions typically will increase our sales and profitability although, given the typical size of our acquisitions to date, most acquisitions will not individually have a material impact on our consolidated results of operations and financial position. We may not always be able to introduce our processes and selling platform to acquired companies due to different operating models in international jurisdictions or other facts. As a result, the associated benefits of acquisitions may be delayed for years in some international situations. During this period, the acquisitions may operate at a loss and certain acquisitions, while profitable, may operate at a margin percentage that is below our overall operating margin percentage and, accordingly, have an adverse impact on our consolidated results of operations and financial position. Hence, the conversion periods vary from weeks to years and cannot be predicted.

**Our business is subject to a variety of domestic and international laws and other obligations regarding privacy and data protection.**

We are subject to federal, state and international laws, directives, and regulations relating to the collection, use, retention, disclosure, security, and transfer of personal data. These laws, directives, and regulations, and their interpretation and enforcement continue to evolve and may be inconsistent from jurisdiction to jurisdiction. For example, the General Data Protection Regulation (“GDPR”), which went into effect in the European Union on May 25, 2018, applies to all of our activities conducted from an establishment in the European Union and may also apply to related products and services that we offer to European Union users. Similarly, the California Consumer Privacy Act, or AB375 (“CCPA”) and the Brazilian General Data Protection Law (“LGPD”), were also recently enacted and became effective in 2020 and these laws create new data privacy rights for individuals. Complying with the GDPR, the CCPA, the LGPD and similar emerging and changing privacy and data protection requirements may cause us to incur substantial costs or require us to change our business practices. Noncompliance with our legal obligations relating to privacy and data protection could result in penalties, legal proceedings by governmental entities or others, and significant legal and financial exposure and could affect our ability to retain and attract customers. Any of the risks described above could adversely affect our consolidated financial position and results of operations.

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

Participants in the vehicle sales industry are subject to, and may be required to expend funds to ensure compliance with a variety of laws, regulations, and ordinances. These include, without limitation, land use ordinances, business and occupational licensure requirements and procedures, vehicle titling, sales, and registration rules and procedures, and laws and regulations relating to the environment, anti-money laundering, anti-corruption, exporting, and reporting and notification requirements to agencies and law enforcement relating to vehicle transfers. Many of these laws and regulations are frequently complex and subject to interpretation, and failure to comply with present or future regulations or changes in interpretations of existing laws or regulations may result in impairment or suspension of our operations and the imposition of penalties and other liabilities. At various times, we may be involved in disputes with local governmental officials regarding the development and/or operation of our business facilities. We may be subject to similar types of regulations by governmental agencies in new markets. In addition, new legal or regulatory requirements or changes in existing requirements may delay or increase the cost of opening new facilities, may limit our base of vehicle buyers, may decrease demand for our vehicles, and may adversely impact our ability to conduct business.

**Changes in laws or the interpretation of laws, including foreign laws and regulations, affecting the import and export of vehicles may have an adverse effect on our business and financial condition.**

Our internet-based auction-style model has allowed us to offer our products and services to international markets and has increased our international buyer base. As a result, foreign importers of vehicles now represent a significant part of our total buyer base. As a result our foreign buyers may be subject to a variety of foreign laws and regulations, including the imposition of import duties by foreign countries. Changes in laws, regulations, and treaties that restrict or impede or negatively affect the economics surrounding the importation of vehicles into foreign countries may reduce the demand for vehicles and impact our ability to maintain or increase our international buyer base. In addition, we and our vehicle buyers must work with foreign customs agencies and other non-U.S. governmental officials, who are responsible for the interpretation, application, and enforcement of these laws, regulations, and treaties. Any inability to obtain requisite approvals or agreements from such authorities could adversely impact the ability of our buyers to import vehicles into foreign countries. In addition, any disputes or disagreements with foreign agencies or officials over import duties, tariffs, or similar matters, including disagreements over the value assigned to imported vehicles, could adversely affect our costs and the ability and costs of our buyers to import vehicles into foreign countries. For example, in March 2008, a decree issued by the president of Mexico became effective that placed restrictions on the types of vehicles that can be imported into Mexico from the U.S. The adoption of similar laws or regulations in other jurisdictions that have the effect of reducing or curtailing our activities abroad, changes in the interpretation, application, and enforcement of laws, regulations, or treaties, any failure to comply with non-U.S. laws or regulatory interpretations, or any legal or regulatory interpretations or governmental actions that significantly increase our costs or the costs of our buyers could have a material adverse effect on our consolidated results of operations and financial position by reducing the demand for our products and services and our ability to compete in non-U.S. markets.

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

Our operations are subject to federal, state, national, international, provincial and local laws and regulations regarding the protection of the environment in the countries in which we have storage facilities. In some cases, we may acquire land with existing environmental issues, including landfills as an example. In the salvage vehicle remarketing industry, large numbers of wrecked vehicles are stored at storage facilities, requiring us to actively monitor and manage potential environmental impacts. In the U.K., we provide vehicle de-pollution and crushing services for end-of-life program vehicles. We could incur substantial expenditures for preventative, investigative, or remedial action and could be exposed to liability arising from our operations, contamination by previous users of certain of our acquired facilities or facilities which we may acquire in the future, or the disposal of our waste at off-site locations. In addition to conducting environmental diligence on new site acquisitions, we also take such actions as may be necessary under laws in the U.S. to avoid liability for activities of prior owners, and we have from time to time acquired insurance with respect to acquired facilities with known environmental risks. There can be no assurances, however, that these efforts to mitigate environmental risk will prove sufficient if we were to face material liabilities. We have incurred expenses for environmental remediation in the past, and environmental laws and regulations could become more stringent over time. There can be no assurance that we or our operations will not be subject to significant costs in the future or that environmental enforcement agencies at the state and federal level will not pursue enforcement actions against us. In addition to acquiring insurance in connection with certain acquisitions, we have also obtained indemnification for pre-existing environmental liabilities from many of the persons and entities from whom we have acquired facilities, but there can be no assurance that such indemnifications will be available or sufficient. Any such expenditures or liabilities could have a material adverse effect on our consolidated results of operations, financial position, or cash flows.

**Changes in federal, state and local, or foreign tax laws, changing interpretations of existing tax laws, or adverse determinations by tax authorities could increase our tax burden or otherwise adversely affect our financial condition and results of operations.**

We are subject to taxation at the federal, state, provincial, and local levels in the U.S., the U.K., and various other countries and jurisdictions in which we operate, including income taxes, sales taxes, value-added (“VAT”) taxes, and similar taxes and assessments. The laws and regulations related to tax matters are extremely complex and subject to varying interpretations. Although we believe our tax positions are reasonable, we are subject to audit by the Internal Revenue Service in the United States, HM Revenue and Customs in the United Kingdom, state tax authorities in the states in which we operate, and other similar tax authorities in international jurisdictions. We have been subject to audits and challenges from applicable federal, state, or foreign tax authorities in the past, and may be subject to similar audits and challenges in the future. While we believe we comply with all applicable tax laws, rules, and regulations in the relevant jurisdictions, tax authorities may elect to audit us and determine that we owe additional taxes, which could result in a significant increase in our liabilities for taxes, interest, and penalties in excess of our accrued liabilities.

New tax legislative initiatives may be proposed from time to time, such as proposals for comprehensive tax reform in the United States, which may impact our effective tax rate and which could adversely affect our tax positions or tax liabilities. Our future effective tax rate could be adversely affected by, among other things, changes in the composition of earnings in jurisdictions with differing tax rates, changes in statutory rates and other legislative changes, changes in interpretations of existing tax laws, or changes in determinations regarding the jurisdictions in which we are subject to tax. From time to time, U.S. federal, state and local, and foreign governments make substantive changes to tax rules and their application, which could result in materially higher taxes than would be incurred under existing tax law and which could adversely affect our financial condition or results of operations.

The Tax Cuts and Jobs Act (“Tax Reform” or “Tax Act”) was enacted on December 22, 2017. The Tax Act significantly revamped U.S. taxation of corporations, including a reduction of the federal income tax rate from 35% to 21%, a repeal of the exceptions to the \$1.0 million deduction limitation for performance-based compensation to covered employees, and a new tax regime for foreign earnings. Any subsequent repeal of the Tax Act could adversely affect our financial condition or results of operations. Many of the provisions of the Tax Act are highly complex and may be subject to further interpretive guidance from the IRS or others. Some of the provisions of the Tax Act may be changed by a future Congress or challenged by the World Trade Organization (“WTO”). Although we cannot predict the nature or outcome of such future interpretive guidance, or actions by a future Congress or WTO, they could adversely impact our consolidated results of operations and financial position.

**Risks Related to Our Intellectual Property and Technology**

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

Our intellectual property rights include patents relating to our auction technologies, as well as trademarks, trade secrets, copyrights and other intellectual property rights. In addition, we may enter into agreements with third parties regarding the license or other use of our intellectual property. Effective intellectual property protection may not be available in every country in which our products and services are distributed, deployed, or made available. We seek to maintain certain intellectual property rights as trade secrets. The secrecy could be compromised by third parties, or intentionally or accidentally by our employees, which would cause us to lose the competitive advantage resulting from those trade secrets. Any significant impairment of our intellectual property rights, or any inability to protect our intellectual property rights, could have a material adverse effect on our consolidated results of operations and financial position.

We also may not be able to acquire or maintain appropriate domain names in all countries in which we do business. Furthermore, regulations governing domain names may not protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights.

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

Litigation based on allegations of infringement or other violations of intellectual property rights are common among companies who rely heavily on intellectual property rights. Our reliance on intellectual property rights has increased significantly in recent years as we have implemented our auction-style sales technologies across our business and ceased conducting live auctions. Recent U.S. Supreme Court precedent potentially restricts patentability of software inventions by affirming that patent claims merely requiring application of an abstract idea on standard computers utilizing generic computer functions are patent ineligible, which may impact our ability to enforce our issued patent and obtain new patents. As we face increasing competition, the possibility of intellectual property rights claims against us increases. Litigation and any other intellectual property claims, whether with or without merit, can be time-consuming, expensive to litigate and settle, and can divert management resources and attention from our core business. An adverse determination in current or future litigation could prevent us from offering our products and services in the manner currently conducted. We may also have to pay damages or seek a license for the technology, which may not be available on reasonable terms.



and which may significantly increase our operating expenses, if it is available for us to license at all. We could also be required to develop alternative non-infringing technology, which could require significant effort and expense.

**We have developed a new proprietary enterprise operating system, and we may experience difficulties operating our business as we continue to design and develop this system.**

We have developed a new proprietary enterprise operating system to address our international expansion needs. The ongoing design, development, and implementation of our enterprise operating systems carries certain risks, including the risk of significant design or deployment errors causing disruptions, delays or deficiencies, which may make our website and services unavailable. This type of interruption could prevent us from processing vehicles for our sellers and may prevent us from selling vehicles through our internet bidding platform, VB3, which would adversely affect our consolidated results of operations and financial position. In addition, the transition to our internally developed proprietary system will continue to require us to commit substantial financial, operational and technical resources before the volume of business increases, without assurance that the volume of business will increase. We began using our internally developed proprietary system with our expansion into Spain in fiscal 2016 and Germany in fiscal 2017.

We may also implement additional or enhanced information systems in the future to accommodate our growth and to provide additional capabilities and functionality. The implementation of new systems and enhancements is frequently disruptive to the underlying business of an enterprise and can be time-consuming and expensive, increase management responsibilities and divert management attention. Any disruptions relating to our system enhancements or any problems with the implementation, particularly any disruptions impacting our operations or our ability to accurately report our financial performance on a timely basis during the implementation period, could materially and adversely affect our business. Even if we do not encounter these material and adverse effects, the implementation of these enhancements may be much more costly than we anticipated. If we are unable to successfully implement the information systems enhancements as planned, our financial position, results of operations, and cash flows could be negatively impacted.

Our success depends on maintaining the integrity of our systems and infrastructure. As our operations continue to grow in both size and scope, domestically and internationally, we must continue to provide reliable, real-time access to our systems by our customers through improving and upgrading our systems and infrastructure for enhanced products, services, features and functionality. Any failure to maintain the integrity of our systems and infrastructure may result in loss of customers due, among other things, to slow delivery times, unreliable service levels, or insufficient capacity, any of which could have a material adverse effect on our business, consolidated financial position, and results of operations.

**Decreased utility of internally developed capitalized software could adversely affect our consolidated results of operations and financial condition.**

We capitalize certain costs associated with the development of new software products, new software for internal use and major software enhancements to existing software. These costs are amortized over the estimated useful life of the software beginning with its introduction or roll-out. As of April 30, 2021, the net amount of capitalized software development costs shown on our consolidated balance sheet is \$20.0 million. If, at any time, it is determined that capitalized software provides a reduced economic benefit, the unamortized portion of the capitalized development costs could be expensed, in part or in full.

**Disruptions to our information technology systems, including failure to prevent outages, maintain security, and prevent unauthorized access to our information technology systems and other confidential information, could disrupt our business and materially and adversely affect our reputation, consolidated results of operations, and financial condition.**

Information availability and security risks for online commerce companies have significantly increased in recent years because of, in addition to other factors, the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, and other external parties. These threats may derive from fraud or malice on the part of third parties or current or former employees. In addition, human error or accidental technological failure could make us vulnerable to information technology system disruptions and/or cyber-attacks, including the introduction of malicious computer viruses or code into our system, phishing attacks, or other information technology data security incidents.

Our operations rely on the secure processing, transmission, and storage of confidential, proprietary and other information in our computer systems and networks. Our customers and other parties in the payments value chain rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. In addition, to access our products and services, our customers increasingly use personal smartphones, tablet PCs, and other mobile devices that may be beyond our control.

Information technology system disruptions, cyber-attacks, or other cyber security incidents could materially and adversely affect our reputation, operating results, or financial condition by, among other things, making our auction platform inoperable for a period of time, damaging our reputation with buyers, sellers, and insurance companies as a result of the unauthorized disclosure of confidential information (including account data information), or resulting in governmental investigations, litigation, liability, fines, or penalties against us. If such attacks are not detected immediately, their effect could be compounded. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of these cyber risks, our insurance coverage may be insufficient to cover all losses and would not remedy damage to our reputation.

We have in the past identified attempts by unauthorized third parties to access our systems and disrupt our online auctions. These attempts have caused minor service interruptions, which were promptly addressed and resolved, and our online service was restored to normal business. For example, in April 2015, we identified that unauthorized third parties had gained access to data provided to us by our members that is considered to be personal information in certain jurisdictions. We immediately investigated, including the engagement of an external expert security firm, and made the required notifications to members whose information may have been accessed and to regulatory agencies.

We are regularly evaluating and implementing new technologies and processes to manage risks relating to cyber-attacks and system and network disruptions, including but not limited to usage errors by our employees, power outages, and catastrophic events such as fires, tornadoes, floods, hurricanes, and earthquakes. We have further enhanced our security protocols based on the investigation we conducted in response to the security incident. Nevertheless, we cannot provide assurances that our efforts to address prior data security incidents and mitigate against the risk of future data security incidents or system failures will be successful. The techniques used by criminals to obtain unauthorized access to sensitive data change frequently and are often not recognized immediately. We may be unable to anticipate these techniques or implement adequate preventative measures and believe that cyber-attacks and threats against us have occurred in the past and are likely to continue in the future. If our systems are compromised again in the future, become inoperable for extended periods of time, or cease to function properly, we may have to make a significant investment to fix or replace them, and our ability to provide many of our electronic and online solutions to our customers may be impaired. In addition, as cyber-threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Any of the risks described above could materially and adversely affect our consolidated financial position and results of operations.

**Rapid technological changes may render our technology obsolete or decrease the competitiveness of our services.**

To remain competitive, we must continue to enhance and improve the functionality and features of our websites and software. The internet and the online commerce industry are rapidly changing. In particular, the online commerce industry is characterized by increasingly complex systems and infrastructures. If competitors introduce new services embodying new technologies or if new industry standards and practices emerge, our existing websites and proprietary technology and systems may become obsolete. Our future success will depend on our ability to:

- enhance our existing services;
- develop, access, acquire, and license new services and technologies that address the increasingly sophisticated and varied needs of our current and prospective customers; and
- respond to technological advances and emerging industry standards and practices in a cost-effective and timely basis.

Developing our websites and other proprietary technology entails significant technical and business risks. We may use new technologies ineffectively or we may fail to adapt our websites, transaction-processing systems, and network infrastructure to customer requirements or emerging industry standards. If we face material delays in introducing new services, products, and enhancements, our customers and suppliers may forego the use of our services and use those of our competitors.

**Risks Related to Ownership of Our Common Stock**

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

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

- fluctuations in the market value of salvage and used vehicles;
- fluctuations in commodity prices, particularly the per ton price of crushed car bodies;
- the impact of foreign exchange gain and loss as a result of international operations;
- our ability to successfully integrate our newly acquired operations in international markets and any additional markets we may enter;
- forthcoming cessation of the LIBOR interest rate standard;
- the availability of salvage vehicles or other vehicles we sell;
- variations in vehicle accident rates;
- member participation in the internet bidding process;
- delays or changes in state title processing;
- changes in international, state or federal laws, regulations, or treaties affecting the vehicles we sell;



- changes in the application, interpretation, and enforcement of existing laws, regulations or treaties;
- trade disputes and other political, diplomatic, legal, or regulatory developments;
- inconsistent application or enforcement of laws or regulations by regulators, governmental or quasi-governmental entities, or law enforcement or quasi-law enforcement agencies, as compared to our competitors;
- changes in laws affecting who may purchase the vehicles we sell;
- the timing and size of our new facility openings;
- the announcement of new vehicle supply agreements by us or our competitors;
- the severity of weather and seasonality of weather patterns;
- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our business, operations, and infrastructure;
- the availability and cost of general business insurance;
- labor costs and collective bargaining;
- changes in the current levels of out of state and foreign demand for salvage vehicles;
- the introduction of a similar internet product by a competitor;
- the ability to obtain or maintain necessary permits to operate;
- military actions;
- bank failures;
- natural and man-made disasters;
- public health issues, including COVID-19 and other pandemics;
- monetary policy and potential inflation impacts; and
- political issues.

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

**We are partially self-insured for certain losses and if our estimates of the cost of future claims differ from actual trends, our results of operations could be harmed.**

We are partially self-insured for certain losses related to our different lines of insurance coverage including, without limitation, medical insurance, general liability, workers' compensation and auto liability. Our liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date. The estimated liability is not discounted and is established based upon analysis of historical data and actuarial estimates. Further, we utilize independent actuaries to assist us in establishing the proper amount of reserves for anticipated payouts associated with these self-insured exposures. While we believe these estimates are reasonable based on the information currently available, if actual trends, including the severity of claims and medical cost inflation, differ from our estimates, our results of operations could be impacted.

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

Our executive officers, directors and their affiliates beneficially own, in the aggregate, more than 11% of our common stock as of April 30, 2021. If they were to act together, these stockholders would have significant influence over most matters requiring approval by stockholders, including the election of directors, any amendments to our certificate of incorporation and certain significant corporate transactions, including potential merger or acquisition transactions. In addition, without the consent of these stockholders, we could be delayed or prevented from entering into transactions that could be beneficial to us or our other investors. These stockholders may take these actions even if they are opposed by our other investors.

**We have certain provisions in our certificate of incorporation and bylaws which may have an anti-takeover effect or that may delay, defer or prevent acquisition bids for us that a stockholder might consider favorable and limit attempts by our stockholders to replace or remove our current management.**

Our Board of Directors is authorized to create and issue from time to time, without stockholder approval, up to an aggregate of 5,000,000 shares of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval, and which may include rights superior to the rights of the holders of common stock. In addition, our bylaws establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and cause us to take other corporate actions the stockholders desire.

## **General Risk Factors**

### **Cash investments are subject to risks.**

We may invest our excess cash in securities or money market funds backed by securities, which may include U.S. treasuries, other federal, state and municipal debt, bonds, preferred stock, commercial paper, insurance contracts and other securities both privately and publicly traded. All securities are subject to risk, including fluctuations in interest rates, credit risk, market risk and systemic economic risk. Changes or movements in any of these investment-related risk items may result in a loss or impairment to our invested cash and may have a material effect on our consolidated results of operations and financial position.

**Macroeconomic factors such as high fuel prices, declines in commodity prices, declines in used car prices, and vehicle-related technological advances may have an adverse effect on our revenues and operating results, as well as our earnings growth rates.**

Macroeconomic factors that affect oil prices and the automobile and commodity markets can have adverse effects on our revenues, revenue growth rates (if any), and operating results. Significant increases in the cost of fuel could lead to a reduction in miles driven per car and a reduction in accident rates. A material reduction in accident rates, whether due to, among other things, a reduction in miles driven per car, vehicle-related technological advances such as accident avoidance systems and, to the extent widely adopted, the advent of autonomous vehicles, could have a material impact on revenue growth. In addition, under our Percentage Incentive Program contracts, which we refer to as PIP, the cost of transporting the vehicle to one of our facilities is included in the PIP fee. We may incur increased fees, which we may not be able to pass on to our vehicle sellers. A material increase in transportation rates could have a material impact on our operating results. Volatility in fuel, commodity, and used car prices could have a material adverse effect on our revenues and revenue growth rates in future periods.

**Adverse U.S. and international economic conditions may negatively affect our business, operating results, and financial condition.**

The capital and credit markets have historically experienced extreme volatility and disruption, which has in the past and may in the future lead to economic downturns in the U.S. and abroad. As a result of any economic downturn, the number of miles driven may decrease, which may lead to fewer accident claims, a reduction of vehicle repairs, and fewer salvage vehicles. Increases in unemployment, as a result of any economic downturn, may lead to an increase in the number of uninsured motorists. Uninsured motorists are responsible for disposition of their vehicle if involved in an accident. Disposition generally is either the repair or disposal of the vehicle. In the situation where the owner of the wrecked vehicle, and not an insurance company, is responsible for its disposition, we believe it is more likely that vehicle will be repaired or, if disposed, disposed through channels other than us. Adverse credit markets may also affect the ability of members to secure financing to purchase salvaged vehicles which may adversely affect demand. In addition, if the banking system or the financial markets deteriorate or are volatile, our credit facility or our ability to obtain additional debt or equity financing may be affected. These adverse economic conditions and events may have a negative effect on our business, consolidated results of operations, and financial position.

**New accounting pronouncements or new interpretations of existing standards could require us to make adjustments to accounting policies that could adversely affect the consolidated financial statements.**

The Financial Accounting Standards Board, the Public Company Accounting Oversight Board, and the SEC, from time to time issue new pronouncements or new interpretations of existing accounting standards that require changes to our accounting policies and procedures. To date, we do not believe any new pronouncements or interpretations have had a material adverse effect on our consolidated results of operations and financial position, but future pronouncements or interpretations could require a change or changes in our policies or procedures.

**Fluctuations in foreign currency exchange rates could result in declines in our reported revenues and earnings.**

Our reported revenues and earnings are subject to fluctuations in currency exchange rates. We do not engage in foreign currency hedging arrangements; consequently, foreign currency fluctuations may adversely affect our revenues and earnings. Should we choose to engage in hedging activities in the future we cannot be assured our hedges will be effective or that the costs of the hedges will exceed their benefits. Fluctuations in the rate of exchange between the U.S. dollar and foreign currencies, primarily the British pound, Canadian dollar, Brazilian real, European Union euro, U.A.E. dirham, Omani rial, and Bahraini dinar could adversely affect our consolidated results of operations and financial position.

On January 29, 2020, the European Parliament approved the U.K.'s withdrawal from the European Union, commonly referred to as "Brexit." The U.K. officially left the European Union on January 31, 2020. The ultimate effects of Brexit on us are difficult to predict, but adverse consequences concerning Brexit or the European Union could include deterioration in global economic conditions, instability in global financial markets, political uncertainty, volatility in currency exchange rates, or adverse changes in the cross-border agreements currently in place, any of which could have an adverse impact on our financial results in the future.

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

**Unregistered Sales of Equity Securities**

None.

**Issuer Purchases of Equity Securities**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

a) Exhibits

3.1		<a href="#">Copart, Inc. Certificate of Incorporation</a>
3.2		<a href="#">Certificate of Amendment to the Copart, Inc. Certificate of Incorporation</a>
3.3		<a href="#">Bylaws of Copart, Inc.</a>
4.1		<a href="#">Description of Capital Stock</a>
10.6	*	<a href="#">Copart Executive Incentive Bonus Plan</a>
31.1		<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2		<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1	(1)	<a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2	(1)	<a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS		XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH		XBRL Taxonomy Extension Schema Document
101.CAL		XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document
101.LAB		XBRL Taxonomy Extension Label Linkbase Document
101.PRE		XBRL Taxonomy Extension Presentation Linkbase Document
104		Cover Page Interactive Data File, formatted in Inline Extensible Business Reporting Language (iXBRL) and contained in Exhibit 101
(1)		In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

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\* Management contract, plan or arrangement

**SIGNATURES**

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

COPART, INC.

/s/ John North

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John North, Chief Financial Officer

(Principal Financial and Accounting Officer and duly Authorized Officer)

Date: May 21, 2021