CARMAX INC
Form 10-K
April 24, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended February 28, 2015

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: 1-31420

CARMAX, INC.

(Exact name of registrant as specified in its charter)

VIRGINIA	54-1821055

(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

12800 TUCKAHOE CREEK PARKWAY, RICHMOND, VIRGINIA	23238
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (804) 747-0422

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.50	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes No

The aggregate market value of the registrant's common stock held by non-affiliates as of August 29, 2014, computed by reference to the closing price of the registrant's common stock on the New York Stock Exchange on that date, was $11,355,302,700.

On March 31, 2015, there were 207,930,356 outstanding shares of CarMax, Inc. common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the CarMax, Inc. Notice of 2015 Annual Meeting of Shareholders and Proxy Statement are incorporated by reference in Part III of this Form 10-K.

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CARMAX, INC.

FORM 10-K

FOR FISCAL YEAR ENDED FEBRUARY 28, 2015

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PART I

In this document, "we," "our," "us," "CarMax" and "the company" refer to CarMax, Inc. and its wholly owned subsidiaries, unless the context requires otherwise.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This Annual Report on Form 10-K and, in particular, the description of our business set forth in Item 1 and our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7 contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), including statements regarding:

· Our projected future sales growth, comparable store sales growth, margins, earnings, CarMax Auto Finance income and earnings per share.

· Our expectations of factors that could affect CarMax Auto Finance income.

· Our expected future expenditures, cash needs and financing sources.

· The projected number, timing and cost of new store openings.

· Our gross profit margin, inventory levels and ability to leverage selling, general and administrative and other fixed costs.

· Our sales and marketing plans.

· The capabilities of our proprietary information technology systems and other systems.

· Our assessment of the potential outcome and financial impact of litigation and the potential impact of unasserted claims.

· Our assessment of competitors and potential competitors.

· Our expectations for growth in our markets and in the used vehicle retail sector.

· Our assessment of the effect of recent legislation and accounting pronouncements.

In addition, any statements contained in or incorporated by reference into this report that are not statements of historical fact should be considered forward-looking statements. You can identify these forward-looking statements by use of words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “outlook,” “plan,” “predict,” “ and other similar expressions, whether in the negative or affirmative. We cannot guarantee that we will achieve the plans, intentions or expectations disclosed in the forward-looking statements. There are a number of important risks and uncertainties that could cause actual results to differ materially from those indicated by our forward-looking statements. These risks and uncertainties include, without limitation, those set forth in Item 1A under the heading “Risk Factors.” We caution investors not to place undue reliance on any forward-looking statements as these statements speak only as of the date when made. We disclaim any intent or obligation to update any forward-looking statements made in this report.

Item 1. Business.

BUSINESS OVERVIEW

CarMax Background

CarMax, Inc. seeks to deliver an unrivaled customer experience by offering a broad selection of high quality used vehicles and related products and services at low, no-haggle prices using a customer-friendly sales process in an attractive, modern sales facility. Our strategy is to revolutionize the used auto retailing market by addressing the major sources of customer dissatisfaction with traditional auto retailers. By focusing on customer service, associate development and efficient execution, we have become the nation’s largest retailer of used cars, selling 582,282 used vehicles at retail during the fiscal year ended February 28, 2015. In addition, we are one of the nation’s largest operators of wholesale vehicle auctions and one of the nation’s largest providers of used vehicle financing.

CarMax was incorporated under the laws of the Commonwealth of Virginia in 1996. CarMax, Inc. is a holding company and our operations are conducted through our subsidiaries. Under the ownership of Circuit City Stores, Inc. ("Circuit City"), we began operations in 1993 with the opening of our first CarMax store in Richmond, Virginia. On October 1, 2002, the CarMax business was separated from Circuit City through a tax-free transaction, becoming an independent, publicly traded company. As of February 28, 2015, we operated 144 used car stores in 73 metropolitan markets. Our home office is located at 12800 Tuckahoe Creek Parkway, Richmond, Virginia.

CarMax Business

We operate in two reportable segments: CarMax Sales Operations and CarMax Auto Finance ("CAF"). Our CarMax Sales Operations segment consists of all aspects of our auto merchandising and service operations, excluding financing provided by CAF. Our CAF segment consists solely of our own finance operation that provides vehicle financing through CarMax stores.

CarMax Sales Operations. Our CarMax Sales Operations segment sells used vehicles, purchases used vehicles from customers and other sources, sells related products and services, and arranges financing options for customers, all for fixed, no-haggle prices. We enable our customers to separately evaluate each component of the sales process based on comprehensive information about the terms and associated prices of each component. Customers can accept or decline any individual element of the offer without affecting the price or terms of any other component of the offer.

Purchasing a Vehicle:

The vehicle purchase process in a CarMax store differs fundamentally from the traditional auto retail experience. Our no-haggle pricing removes a frequent customer frustration with the purchase process and allows customers to shop for vehicles the same way they shop for items at other "big-box" retailers. In addition, our sales consultants are generally paid commissions on a fixed dollars-per-unit standard, thereby earning the same commission regardless of the vehicle being sold, the amount a customer finances or the related interest rate. This pay structure aligns our sales associates' interests with those of our customers, in contrast to other dealerships where sales and finance personnel may receive higher commissions for negotiating higher prices and interest rates, or steering customers to vehicles with higher gross profits.

We recondition every used vehicle we retail to meet our CarMax Quality Certified standards, and each vehicle must pass a comprehensive inspection before being offered for sale. We stand behind every used vehicle we sell with a 5-day, money-back guarantee and at least a 30-day limited warranty.

We maximize customer choice by offering a large selection of inventory on our lots and by making our nationwide inventory of more than 60,000 vehicles as of February 28, 2015, available for viewing on our website, carmax.com, as well as our mobile apps. Upon request by a customer, we will transfer virtually any used vehicle in this inventory to a local store. This allows a single CarMax store to offer access to a much larger selection of vehicles than any traditional auto retailer. In fiscal 2015, 31% of our vehicles sold were transferred at customer request.

In addition to retailing used vehicles, we sell new vehicles at four locations under franchise agreements with three new car manufacturers. In fiscal 2015, new vehicles comprised 1% of our total retail vehicle unit sales.

Selling us a Vehicle:

We have separated the practice of trading in a used vehicle in conjunction with the purchase of another vehicle into two distinct and independent transactions. We will appraise a customer's vehicle free of charge and make a written, guaranteed offer to buy that vehicle regardless of whether the owner is purchasing a vehicle from us. This no-haggle offer is good for seven days.

Based on their age, mileage or condition, fewer than half of the vehicles acquired through our in-store appraisal process meet our retail standards. Those vehicles that do not meet our retail standards are sold to licensed dealers through our on-site wholesale auctions. Unlike many other auto auctions, we own all the vehicles that we sell in our auctions, which allows us to maintain a high auction sales rate. This high sales rate, combined with dealer-friendly practices, makes our auctions an attractive source of vehicles for licensed dealers. As of February 28, 2015, we conducted wholesale auctions at 62 of our 144 stores. During fiscal 2015, we sold 376,186 wholesale vehicles through these on-site auctions in fiscal 2015 with an average auction sales rate of 97%.

Financing a Vehicle:

The availability of on-the-spot financing is a critical component of the vehicle purchase process, and having an array of finance sources increases approvals, expands finance opportunities for our customers and mitigates risk to

CarMax. Our finance program provides access to credit for customers across a wide range of the credit spectrum through both CAF and third-party providers. We believe that our processes and systems, transparency of pricing, and vehicle quality, as well as the integrity of the information collected at the time the customer applies for credit, allow CAF and our third-party providers to make underwriting decisions in a unique and advantageous environment distinct from the traditional auto retail environment. All finance offers, whether from CAF or our third-party providers, are backed by a 3 day payoff option, which allows customers to refinance their loan with another finance provider within three business days at no charge.

Related Products and Services:

We provide customers with a range of other related products and services, including extended protection plan ("EPP") products and vehicle repair service. EPP products include extended service plans ("ESPs") and guaranteed asset protection ("GAP"), which is designed to cover the unpaid balance on an auto loan in the event of a total loss of the vehicle or unrecovered theft. Our ESP customers have access to vehicle repair service at each CarMax store and at thousands of independent and franchised service providers. We believe that the broad scope of our ESPs, helps promote customer satisfaction and loyalty, and thus increases the likelihood of repeat and referral business. In fiscal 2015, more than 60% of the customers who purchased a retail vehicle also purchased an ESP and more than 25% purchased GAP.

CarMax Auto Finance. CAF provides financing solely to customers of CarMax. CAF allows us to manage our reliance on third-party finance providers and to leverage knowledge of our business to provide customers with a competitive financing option. CAF utilizes proprietary scoring models based upon the credit history of the customer along with CAF's historical experience to predict the likelihood of customer repayment. Because CAF offers financing solely through CarMax stores, our scoring models are optimized for the CarMax channel. We believe CAF enables us to capture additional profits, cash flows and sales. After the effect of 3-day payoffs and vehicle returns, CAF financed 41.2% of our retail vehicle unit sales in fiscal 2015.

CAF also services all auto loans it originates and is responsible for providing billing statements, collecting payments, maintaining contact with delinquent customers, and arranging for the repossession of vehicles securing defaulted loans. As of February 28, 2015, CAF serviced approximately 619,000 customer accounts in its $8.46 billion portfolio of managed receivables.

Competition

CarMax Sales Operations. The U.S. used car marketplace is highly fragmented and competitive. According to industry sources, as of December 31, 2014, there were approximately 18,000 franchised automotive dealerships, which sell both new and used vehicles. In addition, used vehicles were sold by more than 35,000 independent used vehicle dealers, as well as millions of private individuals. Our primary retail competitors are franchised auto dealers, who sell the majority of late-model used vehicles. Competition in our industry is increasingly affected by the use of Internet-based marketing and other Internet-based tools for both consumers and the dealers with whom we compete.

Based on industry data, there were approximately 39 million used cars sold in the U.S. in calendar 2014, of which approximately 21 million were estimated to be 0- to 10-year old vehicles. While we are the largest retailer of used vehicles in the U.S., in calendar 2014 we sold approximately 5% of the age 0- to 10-year old vehicles sold in the markets for which we operate, and less than 3% of the age 0- to 10-year old vehicles sold nationwide.

We believe that our principal competitive advantages in used vehicle retailing include our ability to provide a high degree of customer satisfaction with the car-buying experience by virtue of our low, no-haggle prices and our customer-friendly sales process; our breadth of selection of the most popular makes and models available on site and via carmax.com and our mobile apps; the quality of our vehicles; our proprietary information systems; the transparency and availability of CAF and third-party financing; and the locations of our retail stores. In addition, we believe our willingness to appraise and purchase a customer's vehicle, whether or not the customer is buying a car from us, provides a competitive sourcing advantage for retail vehicles. Our high volume of appraisal purchases supplies not only a large portion of our retail inventory, but also provides the scale that enables us to conduct our own wholesale auctions to dispose of vehicles that do not meet our retail standards.

Our wholesale auctions compete with other automotive auction houses. In contrast to the highly fragmented used vehicle retail market, the automotive auction market has two primary competitors, Manheim, a subsidiary of Cox Enterprises, and KAR Auction Services, Inc., who together represent an estimated 70% of the North American wholesale car auction market. These competitors auction vehicles of all ages, while CarMax's auctions predominantly sell older, higher mileage vehicles.

CarMax Auto Finance. CAF operates in the auto finance sector of the consumer finance market. This sector is primarily comprised of banks, captive finance divisions of new car manufacturers, credit unions and independent finance companies. According to industry sources, this sector represented nearly $900 billion in outstanding receivables as of December 31, 2014. CAF's primary competitors are banks and credit unions that offer direct financing to customers purchasing used cars. For loans originated during the calendar quarter ended December 31, 2014, industry sources ranked CAF 7th in market share for used vehicle loans and 14th in market share for all vehicle loans.

We believe that CAF's principal competitive advantage is its strategic position as the primary finance source in CarMax stores and that CAF's primary driver for growth is the growth in CarMax's retail unit sales. We periodically test different credit offers, and closely monitor acceptance rates and the effect on sales to assess market competitiveness. We also monitor 3-day payoffs, as the percentage of customers exercising this option can be an indication of the competitiveness of our rates.

Products and Services

Retail Merchandising. We offer customers a broad selection of makes and models of used vehicles, including both domestic and imported vehicles, at competitive prices. Our focus is vehicles that are 0 to 10 years old and generally range in price from $12,000 to $34,000. The mix of our used vehicle inventory by make, model and age will vary from time to time, depending on consumer preferences.

Wholesale Auctions. The typical vehicle sold at our wholesale auctions is approximately 10 years old and has more than 100,000 miles. We provide condition disclosures on each vehicle, including those for vehicles with major mechanical issues, possible frame or flood damage, branded titles, salvage history and unknown true mileage. Professional, licensed auctioneers conduct our auctions. Dealers pay a fee to us based on the sales price of the vehicles they purchase. Our auctions are generally held on a weekly or bi-weekly basis.

Extended Protection Plans. At the time of sale, we offer customers EPP products. We sell these plans on behalf of unrelated third parties, who are the primary obligors, and in return receive commission income. We have no contractual liability to customers for claims under these agreements. The ESPs we currently offer on all used vehicles provide coverage up to 60 months (subject to mileage limitations). GAP covers the customer for the term of their finance contract. All EPPs that we sell (other than manufacturer programs on new car sales) have been designed to our specifications and are administered by the third parties through private-label arrangements. Periodically, we may receive additional commissions based upon the level of underwriting profits of the third parties who administer the products.

Reconditioning and Service. An integral part of our used car consumer offer is the reconditioning process designed to make sure every car meets our standards before it can become a CarMax Quality Certified vehicle. This process includes a comprehensive CarMax Quality Inspection of the engine and all major systems. Based on this inspection, we determine the reconditioning necessary to bring the vehicle up to our quality standards. Many of our stores depend upon nearby, typically larger, CarMax stores for reconditioning, which increases efficiency and reduces overhead. We perform most routine mechanical and minor body repairs in-house; however, for some reconditioning services, we engage third parties specializing in those services

In addition, all CarMax used car stores provide vehicle repair service, including repairs of vehicles covered by the ESPs we sell.

Customer Credit. We offer financing alternatives for retail customers across a wide range of the credit spectrum through CAF and arrangements with several financial institutions. Vehicles are financed using retail installment contracts secured by the vehicle. As of February 28, 2015, our third-party finance providers included Santander Consumer USA, Wells Fargo Dealer Services, Exeter Finance Corp, Capital One Auto Finance, Ally Financial Inc., American Credit Acceptance and Westlake Financial Services. We have no recourse liability for credit losses on retail installment contracts arranged with third-party providers and periodically test additional third-party providers.

All credit applications submitted by customers at CarMax stores are initially reviewed by CAF.   Applications that are declined or conditionally approved by CAF are generally evaluated by other third-party finance providers. These providers generally either pay us or are paid a fixed, pre-negotiated fee per contract. We refer to the providers who pay us a fee as Tier 2 providers and we refer to providers to whom we pay a fee as Tier 3 providers. We are willing to pay a fee to Tier 3 providers because we believe their participation provides us with incremental sales by enabling customers to secure financing that they may not otherwise be able to obtain. All fees paid by Tier 2 providers and paid to Tier 3 providers are pre-negotiated at a fixed amount and do not vary based on the amount financed, the interest rate, the term of the loan or the loan-to-value ratio. As part of our previously disclosed loan origination test, CAF currently provides financing for a small percentage of customers who would typically be financed by a Tier 3 provider.

We do not offer financing to dealers purchasing vehicles at our wholesale auctions. However, we have made arrangements to have third-party financing available to our auction customers.

Suppliers for Used Vehicles

We acquire a significant percentage of our retail used vehicle inventory directly from consumers through our appraisal process, as well as through other sources, including local, regional and online auctions. We also, to a lesser extent, acquire used vehicle inventory from wholesalers, franchised and independent dealers and fleet owners, such as leasing companies and rental companies. The used vehicle inventory we acquire directly from consumers through our appraisal process helps provide an inventory of makes and models that reflects consumer preferences in each market.

The supply of late-model used vehicles is influenced by a variety of factors, including the total number of vehicles in operation; the rate of new vehicle sales, which in turn generate used car trade-ins, and the number of used vehicles sold or remarketed through retail channels, wholesale transactions and at automotive auctions. According to industry sources, there were approximately 250 million light vehicles in operation in the U.S. as of December 31, 2014. During calendar year 2014, more than 16 million new cars and 39 million used cars were sold at retail, many of which were accompanied by trade-ins, and more than 9 million vehicles were sold at wholesale auctions.

Based on the large number of vehicles remarketed each year, consumer acceptance of our in-store appraisal process, our experience and success in acquiring vehicles from auctions and other sources, and the large size of the U.S. auction market relative to our needs, we believe that sources of used vehicles will continue to be sufficient to meet our current and future needs.

Seasonality

Historically, our business has been seasonal. Our stores typically experience their strongest traffic and sales in the spring and summer quarters. Sales are typically slowest in the fall quarter. We typically experience an increase in traffic and sales in February and March, coinciding with tax refund season.

Systems

Our stores are supported by proprietary information systems that improve the customer experience while providing tightly integrated automation of all operating functions, including our credit processing information system. Our proprietary store technology provides our management with real-time information about many aspects of store operations, such as inventory management, pricing, vehicle transfers, wholesale auctions and sales consultant productivity.

Our proprietary centralized inventory management and pricing system tracks each vehicle throughout the sales process and allows us to buy the mix of makes, models, age, mileage and price points tailored to customer buying preferences at each CarMax location. Leveraging our more than twenty years of experience buying and selling millions of used vehicles, our system generates recommended initial retail price points, as well as retail price markdowns for specific vehicles based on algorithms that take into account factors that include sales history, consumer interest and seasonal patterns. We believe this systematic approach to vehicle pricing allows us to optimize inventory turns, which reduces the depreciation risk inherent in used cars and helps us to achieve our targeted gross profit dollars per unit. Because of the pricing discipline afforded by our inventory management and pricing system, generally more than 99% of our entire used car inventory offered at retail is sold at retail.

Marketing and Advertising

Our marketing strategies are focused on developing awareness of the advantages of shopping at our stores and on carmax.com and on attracting customers who are already considering buying or selling a vehicle. We implement these strategies through both traditional and digital methods, including social media. Our carmax.com website and related mobile apps are marketing tools for communicating the CarMax consumer offer in detail, sophisticated search engines for finding the right vehicle and sales channels for customers who prefer to initiate part of the shopping and sales process online. The website and mobile apps also include a variety of other customer service features including initiation of vehicle transfers and scheduling appointments. Information on the thousands of cars available in our nationwide inventory is updated several times per day. Our survey data indicates that during fiscal 2015, approximately 89% of customers who purchased a vehicle from us had first visited us online.

Associates

On February 28, 2015, we had a total of 22,064 full- and part-time associates, including 16,049 hourly and salaried associates and 6,015 sales associates, who worked on a commission basis. We employ additional associates during peak selling seasons. We believe we have created a unique corporate culture and maintain good employee relations. No associate is subject to a collective bargaining agreement. We focus on developing our associates and providing them with the information and resources they need to offer exceptional customer service and have been recognized for the success of our efforts by a number of external organizations.

Intellectual Property

Our brand image is a critical element of our business strategy. Our principal trademarks, including CarMax and the related family of marks, have been registered with the U.S. Patent and Trademark Office.

Laws and Regulations

Vehicle Dealer and Other Laws and Regulations. We operate in a highly regulated industry. In every state in which we operate, we must obtain licenses and permits to conduct business, including dealer, service, sales and finance licenses issued by state and local regulatory authorities. A wide range of federal, state and local laws and regulations govern the manner in which we conduct business, including advertising, sales, financing and employment practices. These laws include consumer protection laws, privacy laws and state franchise laws, as well as other laws and regulations applicable to new and used motor vehicle dealers. These laws also include federal and state wage-hour, anti-discrimination and other employment practices laws. Our financing activities with customers are subject to federal truth-in-lending, consumer leasing, equal credit opportunity and fair credit reporting laws and regulations, all of which are subject to enforcement by the federal Consumer Financial Protection Bureau or Federal Trade Commission, as well as state and local motor vehicle finance, collection, repossession and installment finance laws.

Claims arising out of actual or alleged violations of law could be asserted against us by individuals or governmental authorities and could expose us to significant damages or other penalties, including revocation or suspension of the licenses necessary to conduct business and fines.

Environmental Laws and Regulations. We are subject to a variety of federal, state and local laws and regulations that pertain to the environment. Our business involves the use, handling and disposal of hazardous materials and wastes, including motor oil, gasoline, solvents, lubricants, paints and other substances. We are subject to compliance with regulations concerning, among other things, the operation of underground and above-ground gasoline storage tanks, gasoline dispensing equipment, above-ground oil tanks and automotive paint booths.

Financial Information

For financial information on our segments, see Item 6. Selected Financial Data, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Consolidated Financial Statements and Supplemental Data of this Annual Report on Form 10-K.

Availability of Reports and Other Information

The following items are available free of charge through the "Corporate Governance" link on our investor information home page at investors.carmax.com, shortly after we file them with, or furnish them to, the Securities and Exchange Commission (the "SEC"): annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements on Schedule 14A, and any amendments to those reports. The following documents are also available free of charge on our website: Corporate Governance Guidelines, Code of Business Conduct, and the charters of the Audit, Nominating and Governance, and Compensation and Personnel Committees. We publish any changes to these documents on our website. We also promptly disclose reportable waivers of the Code of Business Conduct on our website. The contents of our website are not, however, part of this report.

Printed copies of these documents are also available to any shareholder, without charge, upon written request to our corporate secretary at the address set forth on the cover page of this report.

Item 1A. Risk Factors.

We are subject to a variety of risks, the most significant of which are described below. Our business, sales, results of operations and financial condition could be materially adversely affected by any of these risks.

We operate in a highly competitive industry. Failure to develop and execute strategies to remain the nation's preferred retailer of used vehicles and to adapt to the increasing use of the Internet to market, buy and sell used vehicles could adversely affect our business, sales and results of operations.

Automotive retailing is a highly competitive and highly fragmented business. Our competition includes publicly and privately owned new and used car dealers, as well as millions of private individuals. Competitors buy and sell the same or similar makes of vehicles that we offer in the same or similar markets at competitive prices. New car dealers in particular, including publicly-traded auto retailers, have increased their sales of used vehicles in recent years. These new car dealers also leverage their franchise relationships with automotive manufacturers to brand certain used cars as "certified pre-owned," which could provide those competitors with an advantage over CarMax.

Some of our competitors have announced plans for rapid expansion, including into markets with CarMax locations and some of them have begun to execute those plans. Some of our competitors have also replicated or attempted to replicate portions of the consumer offer that we pioneered when we opened our first used car store in 1993, including our use of low, no-haggle prices and our commitment to buy a customer's vehicle even if they do not purchase one from us.

The increasing use of the Internet to market, buy and sell used vehicles and to provide vehicle financing could have a material adverse effect on our sales and results of operations. The increasing online availability of used vehicle information, including pricing information, could make it more difficult for us to differentiate our customer offering from competitors' offerings, could result in lower-than-expected retail margins, and could have a material adverse effect on our business, sales and results of operations. In addition, our competitive standing is affected by companies, including search engines and online classified sites, that are not direct competitors but that may direct on-line traffic to the websites of competing automotive retailers. The increasing activities of these companies could make it more difficult for carmax.com to attract traffic. These companies could also make it more difficult for CarMax otherwise to market its vehicles online.

The increasing use of the Internet to facilitate consumers' sales or trade-ins of their current vehicles could have a material adverse effect on our ability to source vehicles through our appraisal process, which in turn could have a material adverse effect on our vehicle acquisition costs and results of operations. For example, certain websites provide on-line appraisal tools to consumers that generate offers and facilitate purchases by dealers other than CarMax. The popularity of these tools appears to be increasing.

In addition to the direct competition and increasing use of the Internet described above, there are companies that sell software solutions to new and used car dealers to enable those dealers to, among other things, more efficiently source and price inventory. Although these companies do not compete with CarMax, the increasing use of such products by dealers who compete with CarMax could reduce the relative competitive advantage of CarMax's internally developed proprietary systems.

If any of these trends continue, they could have a material adverse effect on our business, sales and results of operations.

Our CAF segment is subject to competition from various financial institutions, including banks and credit unions, which provide vehicle financing to consumers. If we were unable to continue providing competitive finance offers to our customers through CAF, it could result in a greater percentage of sales financed through our third-party financing providers, which financings are generally less profitable to CarMax. In addition, we believe that CAF allows us to capture additional sales. Accordingly, if CAF was unable to continue making competitive finance offers to our customers, it could have a material adverse effect on our business, sales and results of operations.

CarMax was founded on the fundamental principle of integrity. Failure to maintain a reputation of integrity and to otherwise maintain and enhance our brand could adversely affect our business, sales and results of operations.

Our reputation as a company that is founded on the fundamental principle of integrity is critical to our success. Our reputation as a retailer offering low, no-haggle prices, a broad selection of CarMax Quality Certified used vehicles and superior customer service is also critical to our success. If we fail to maintain the high standards on which our reputation is built, or if an event occurs that damages this reputation, it could adversely affect consumer demand and have a material adverse effect on our business, sales and results of operations. Such an event could include an isolated incident at a single store, particularly if such incident results in adverse publicity, governmental investigations, or litigation and could involve, among other things, our sales process, our provision of financing, our reconditioning process, or our treatment of customers. Even the perception of a decrease in the quality of our brand could impact results.

The growing use of social media increases the speed with which information and opinions can be shared and thus the speed with which reputation can be affected. We monitor social media and attempt to address customer concerns, provide accurate information and protect our reputation, but there can be no guarantee that our efforts will succeed. If we fail to correct or mitigate misinformation or negative information, including information spread through social media or traditional media channels, about the vehicles we offer, our customer experience, or any aspect of our brand, it could have a material adverse effect on our business, sales and results of operations.

The automotive retail industry in general and our business in particular are sensitive to economic conditions. These conditions could adversely affect our business, sales, results of operations and financial condition.

We are subject to national and regional U.S. economic conditions. These conditions include, but are not limited to, recession, inflation, interest rates, unemployment levels, the state of the housing market, gasoline prices, consumer credit availability, consumer credit delinquency and loss rates, personal discretionary spending levels, and consumer sentiment about the economy in general. These conditions and the economy in general could be affected by significant national or international events such as acts of terrorism. When these economic conditions worsen or stagnate, it can have a material adverse effect on consumer demand for vehicles generally, including the used vehicles that we sell, and the availability of consumer credit to finance vehicle purchases. This could result in lower sales, decreased margins on units sold, and decreased profits for our CAF segment. Worsening or stagnating economic conditions can also have a material adverse effect on the supply of late-model used vehicles, as automotive manufacturers produce fewer new vehicles and consumers retain their current vehicles for longer periods of time. This could result in increased costs to acquire used vehicle inventory and decreased margins on units sold.

These dynamics were apparent in the difficult U.S. economic environment during the most recent recession, which adversely affected the automotive retail industry in general, including CarMax. While many of these indicators have improved more recently, there can be no assurance that they will continue to do so or that improvements will result in benefits to our sales and results of operations. Any significant change or deterioration in economic conditions could have a material adverse effect on our business, sales, results of operations and financial condition.

Our business is dependent upon capital to fund growth and to support the activities of our CAF segment. Changes in capital and credit markets could adversely affect our business, sales, results of operations and financial condition.

Changes in the availability or cost of capital and working capital financing, including the long-term financing to support our geographic expansion, could adversely affect sales, operating strategies and store growth. Although we have financed recent geographic expansion primarily with internally generated cash flows, there can be no assurance that we will continue to generate sufficient cash flows to fund growth. Failure to do so—or our decision to put our cash to other uses—would make us more dependent on external sources of financing to fund our geographic expansion.

Changes in the availability or cost of the long-term financing to support the origination of auto loan receivables through CAF could adversely affect sales and results of operations. We use a securitization program to fund substantially all of the auto loan receivables originated by CAF. Changes in the condition of the asset-backed securitization market could lead us to incur higher costs to access funds in this market or require us to seek alternative means to finance CAF's loan originations. In the event that this market ceased to exist and there were no immediate alternative funding sources available, we might be forced to curtail our lending practices for some period of time. The impact of reducing or curtailing CAF's loan originations could have a material adverse effect on our business, sales and results of operations.

Our revolving credit facility, term loan and certain securitization and sale-leaseback agreements contain covenants and performance triggers. Any failure to comply with these covenants or performance triggers could have a material adverse effect on our business, results of operations and financial condition.

Disruptions in the capital and credit markets could adversely affect our ability to draw on our revolving credit facility. If our ability to secure funds from the facility were significantly impaired, our access to working capital would be impacted, our ability to maintain appropriate inventory levels could be affected and these conditions—especially if coupled with a failure to generate significant cash flows—could have a material adverse effect on our business, sales, results of operations and financial condition.

We rely on third-party financing providers to finance a significant portion of our customers' vehicle purchases. Accordingly, our sales and results of operations are partially dependent on the actions of these third parties.

We provide financing to qualified customers through CAF and a number of third-party financing providers. If one or more of these third-party providers cease to provide financing to our customers, provide financing to fewer customers or no longer provide financing on competitive terms, it could have a material adverse effect on our business, sales and results of operations. Additionally, if we were unable to replace the current third-party providers upon the occurrence of one or more of the foregoing events, it could also have a material adverse effect on our business, sales and results of operations.

We rely on third-party providers to supply EPP products to our customers. Accordingly, our sales and results of operations are partially dependent on the actions of these third-parties.

We sell EPP products on behalf of unrelated third-parties, who are the primary obligors, and in return we receive commission income. The third-parties that provide ESPs are CNA National Warranty Corporation and The Warranty Group. The third-party that provides GAP products is Safe-Guard Products International LLC. If one or more of these third-party providers cease to provide EPP products, make changes to their products or no longer provide their products on competitive terms, it could have a material adverse effect on our business, sales and results of operations. Additionally, if we were unable to replace the current third-party providers upon the occurrence of one or more of the foregoing events, it could also have a material adverse effect on our business, sales and results of operations.

Our success depends upon the continued contributions of our more than 22,000 associates.

Our associates are the driving force behind our success. We believe that one of the things that sets CarMax apart is a culture centered on valuing all associates. Our failure to maintain this culture or to continue recruiting, developing and retaining the associates that drive our success could have a material adverse effect on our business, sales and results of operations. Our ability to recruit associates while controlling related costs is subject to numerous external and internal factors, including unemployment levels, prevailing wage rates, our growth plans, changes in employment legislation, and competition for qualified employees in the industry and regions in which we operate and for qualified service technicians in particular. Our ability to recruit associates while controlling related costs is also subject to our ability to maintain positive associate relations. If we are unable to do so, or if despite our efforts we become subject to successful unionization efforts, it could increase costs, limit our ability to respond to competitive threats and have a material adverse effect on our business, sales and results of operations.

Our success also depends upon the continued contributions of our store, region and corporate management teams. Consequently, the loss of the services of any of these associates could have a material adverse effect on our business, sales and results of operations. In addition, an inability to build our management bench strength to support store growth could have a material adverse effect on our business, sales and results of operations.

We collect sensitive confidential information from our customers. A breach of this confidentiality, whether due to a cyber-security or other incident, could result in harm to our customers and damage to our brand.

We collect, process and retain sensitive and confidential customer information in the normal course of business and may share that information with our third-party service providers. This information includes the information customers provide when purchasing a vehicle and applying for vehicle financing. We also collect, process and retain sensitive and confidential associate information in the normal course of business and may share that information with our third-party service providers. Although we have taken measures designed to safeguard such information and have received assurances from our third-party providers, our facilities and systems, and those of third-party providers, could be vulnerable to external or internal security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors or other similar events. Numerous national retailers have disclosed security breaches involving sophisticated cyber-attacks which were not recognized or detected until after such retailers had been affected, notwithstanding the preventive measures such retailers had in place. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer or associate information, whether experienced by us or by our third-party service providers, and whether due to an external cyber-security incident, a programming error, or other cause, could damage our reputation, expose us to mitigation costs and the risks of private litigation and government enforcement, disrupt our business, and otherwise have a material adverse effect on our business, sales and results of operations. In addition, our failure to respond quickly and appropriately to such a security breach could exacerbate the consequences of the breach.

Our business is sensitive to changes in the prices of new and used vehicles.

Any significant changes in retail prices for new and used vehicles could have a material adverse effect on our sales and results of operations. For example, if retail prices for used vehicles rise relative to retail prices for new vehicles, it could make buying a new vehicle more attractive to our customers than buying a used vehicle, which could have a material adverse effect on sales and results of operations and could result in decreased used margins. Manufacturer incentives could contribute to narrowing this price gap. In addition, any significant changes in wholesale prices for used vehicles could have a material adverse effect on our results of operations by reducing wholesale margins.

Our business is dependent upon access to vehicle inventory. Obstacles to acquiring inventory—whether because of supply, competition, or other factors—or a failure to expeditiously liquidate that inventory could have a material adverse effect on our business, sales and results of operations.

A reduction in the availability of or access to sources of inventory could have a material adverse effect on our business, sales and results of operations. Although the supply of late-model used vehicles appears to be increasing recently, there can be no assurance that this trend will continue or that it will benefit CarMax.

We source a significant percentage of our vehicles though our appraisal process and these vehicles are generally more profitable for CarMax. Accordingly, if we fail to adjust appraisal offers to stay in line with broader market trade-in offer trends, or fail to recognize those trends, it could adversely affect our ability to acquire inventory. It could also force us to purchase a greater percentage of our inventory from third-party auctions, which is generally less profitable for CarMax. Our ability to source vehicles through our appraisal process could also be affected by competition, both from new and used car dealers directly and through third-party websites driving appraisal traffic to those dealers. See the risk factor above titled “We operate in a highly competitive industry” for discussion of this risk. Our ability to source vehicles from third-party auctions could be affected by an increase in the number of closed auctions that are open only to new car dealers who have franchise relationships with automotive manufacturers.

Used vehicle inventory is subject to depreciation risk. Accordingly, if we develop excess inventory, the inability to liquidate such inventory at prices that allow us to meet margin targets or to recover our costs could have a material adverse effect on our results of operations.

We operate in a highly regulated industry and are subject to a wide range of federal, state and local laws and regulations. Changes in these laws and regulations, or our failure to comply, could have a material adverse effect on our business, sales, results of operations and financial condition.

We are subject to a wide range of federal, state and local laws and regulations. Our sale of used vehicles is subject to state and local licensing requirements, federal and state laws regulating vehicle advertising, and state laws regulating vehicle sales and service. Our provision of vehicle financing is subject to federal and state laws regulating the provision of consumer finance. Our facilities and business operations are subject to laws and regulations relating to environmental protection and health and safety. In addition to these laws and regulations that apply specifically to our business, we are also subject to laws and regulations affecting public companies and large employers generally, including federal employment practices, securities and tax laws. For additional discussion of these laws and regulations, see the section of this Form 10-K titled "Laws and Regulations."

The violation of any of these laws or regulations could result in administrative, civil or criminal penalties or in a cease-and-desist order against our business operations, any of which could damage our reputation and have a material adverse effect on our business, sales and results of operations. We have incurred and will continue to incur capital and operating expenses and other costs to comply with these laws and regulations.

Recent federal legislative and regulatory initiatives and reforms may result in an increase in expenses or a decrease in revenues, which could have a material adverse effect on our results of operations. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") regulates, among other things, the provision of consumer financing. The Dodd-Frank Act established a new federal agency, the Consumer

Financial Protection Bureau ("CFPB"), with broad regulatory powers over consumer financial products and activities. In September 2014, the CFPB proposed to extend its supervisory authority to large nonbank auto finance companies, including CarMax. We expect that the CFPB will seek to conduct supervisory examinations of nonbank auto finance companies like CarMax to ensure compliance with various federal consumer protection laws. The evolving regulatory environment in the wake of the continued implementation of the Dodd-Frank Act and the expansion of the CFPB's authority may increase the cost of regulatory compliance or result in changes to business practices that could have a material adverse effect on our results of operations.

The Patient Protection and Affordable Care Act of 2010, as it is phased in over time, significantly affects the provision of health care services and will increase the costs we incur to provide our associates with health coverage. Current federal labor policy could lead to increased unionization efforts, which could increase labor costs, disrupt store operations, and have a material adverse effect on our business, sales and results of operations.

Private plaintiffs and federal, state and local regulatory and law enforcement authorities continue to scrutinize advertising, sales, financing and insurance activities in the sale and leasing of motor vehicles. If, as a result, other automotive retailers adopt more transparent, consumer-oriented business practices, our differentiation versus those retailers could be reduced. See the risk factor titled "We operate in a highly competitive industry" for discussion of this risk.

We are a growth retailer. Our failure to manage our growth and the related challenges could have a material adverse effect on our business, sales and results of operations.

The expansion of our store base places significant demands on our management team, our associates and our information systems. If we fail to effectively or efficiently manage our growth, it could have a material adverse effect on our business, sales and results of operations. The expansion of our store base also requires us to recruit and retain the associates necessary to support that expansion. See the risk factor above titled "Our success depends upon the continued contributions of our more than 22,000 associates" for discussion of this risk. The expansion of our store base also requires real estate. Our inability to acquire or lease suitable real estate at favorable terms could limit our expansion and could have a material adverse effect on our business and results of operations.

If we are forced to curtail or stop growth it could have a material adverse effect on our business and results of operations.

We rely on sophisticated information systems to run our business. The failure of these systems could have a material adverse effect on our business, sales and results of operations.

Our business is dependent upon the integrity and efficient operation of our information systems. In particular, we rely on our information systems to manage sales, inventory, our customer-facing websites (carmax.com and carmaxauctions.com), consumer financing and customer information. The failure of these systems to perform as designed, or the failure to maintain or update these systems as necessary, could disrupt our business operations and have a material adverse effect on our sales and results of operations.

In addition, despite our ongoing efforts to maintain and enhance the integrity and security of these systems, we could be subjected to attacks by hackers, including denial-of-service attacks directed at our websites or other system breaches or malfunctions due to associate error or misconduct or other disruptions. Such incidents could disrupt our business and have a material adverse effect on sales and results of operations. See the risk factor above titled "We collect sensitive confidential information from our customers" for the risks associated with a breach of confidential customer or associate information.

We are subject to numerous legal proceedings. If the outcomes of these proceedings are adverse to CarMax, it could have a material adverse effect on our business, results of operations and financial condition.

We are subject to various litigation matters from time to time, which could have a material adverse effect on our business, results of operations and financial condition. Claims arising out of actual or alleged violations of law could be asserted against us by individuals, either individually or through class actions, or by governmental entities in civil or criminal investigations and proceedings. These claims could be asserted under a variety of laws, including but not limited to consumer finance laws, consumer protection laws, intellectual property laws, privacy laws, labor and employment laws, securities laws and employee benefit laws. These actions could expose us to adverse publicity and to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including but not limited to suspension or revocation of licenses to conduct business.

Our business is sensitive to conditions affecting automotive manufacturers, including manufacturer recalls.

Adverse conditions affecting one or more automotive manufacturers could have a material adverse effect on our sales and results of operations and could impact the supply of vehicles, including the supply of late-model used vehicles. In addition, manufacturer recalls are a common occurrence that have recently accelerated in frequency and scope. Recalls could adversely affect used vehicle sales or valuations, could cause us to temporarily remove vehicles from inventory, could force us to incur increased costs and could expose us to litigation and adverse publicity related to the sale of recalled vehicles, which could have a material adverse effect on our business, sales and results of operations.

Our results of operations and financial condition are subject to management's accounting judgments and estimates, as well as changes in accounting policies.

The preparation of our financial statements requires us to make estimates and assumptions affecting the reported amounts of CarMax's assets, liabilities, revenues, expenses and earnings. If these estimates or assumptions are incorrect, it could have a material adverse effect on our results of operations or financial condition. We have identified several accounting policies as being "critical" to the fair presentation of our financial condition and results of operations because they involve major aspects of our business and require us to make judgments about matters that are inherently uncertain. These policies are described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and the notes to consolidated financial statements included in Item 8.

The implementation of new accounting requirements or other changes to U.S. generally accepted accounting principles could have a material adverse effect on our reported results of operations and financial condition.

Our business is subject to seasonal fluctuations.

Our business is subject to seasonal fluctuations. We generally realize a higher proportion of revenue and operating profit during the first and second fiscal quarters. If conditions arise that impair vehicle sales during the first or second fiscal quarters, these conditions could have a disproportionately large adverse effect on our annual results of operations.

Our business is sensitive to weather events.

The occurrence of severe weather events, such as rain, snow, wind, storms, hurricanes, extended periods of unusually cold weather or natural disasters, could cause store closures or affect the timing of consumer demand, either of which could adversely affect consumer traffic and could have a material adverse effect on our sales and results of operations in a given period.

We are subject to local conditions in the geographic areas in which we are concentrated.

Our performance is subject to local economic, competitive and other conditions prevailing in geographic areas where we operate. Since a large portion of our sales is generated in the Southeastern U.S., including Florida, and in Texas, Southern California and Washington, D.C./Baltimore, our results of operations depend substantially on general economic conditions and consumer spending habits in these markets. In the event that any of these geographic areas experienced a downturn in economic conditions, it could have a material adverse effect on our business, sales and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We conduct our retail vehicle operations in two basic formats – production and non-production stores. Production stores are those locations at which vehicle reconditioning is performed. Production stores have more service bays and require additional space for work-in-process inventory and, therefore, are generally larger than non-production stores. In determining whether to construct a production or a non-production store on a given site, we take several factors into account, including the anticipated long-term regional reconditioning needs and the available acreage of the sites in that market. As a result, some stores that are constructed to accommodate reconditioning activities may initially be operated as non-production stores until we expand our presence in that market. As of February 28, 2015, we operated 79 production stores and 65 non-production stores. Production stores are generally on 10 to 25 acres, but a few range from 25 to 35 acres, and non-production stores are generally on 4 to 12 acres.

After a period of testing, we recently announced our plan to incorporate small format stores into our future store opening plans. These stores are located in smaller markets or areas where the sales opportunity is below that of mid-sized and large markets, and they are generally located on 3 to 7 acres, although small format stores with production capabilities may be somewhat larger. As of February 28, 2015, we had 6 small format stores.

As of February 28, 2015, we operated 62 wholesale auctions, most of which were located at production stores. Stores at which auctions are conducted generally have additional space to store wholesale inventory. As of February 28, 2015, we also operated one new car store, which was located adjacent to our used car store in Laurel, Maryland. Our remaining three new car franchises are operated as part of our used car stores.

Used Car Stores as of February 28, 2015

	Total
Alabama	3
Arizona	3
California	18
Colorado	3
Connecticut	2
Delaware	1
Florida	13
Georgia	8
Illinois	6
Indiana	2
Iowa	1
Kansas	2
Kentucky	2
Louisiana	1
Maryland	6
Massachusetts	1
Mississippi	2
Missouri	3
Nebraska	1
Nevada	3
New Mexico	1
New York	1
North Carolina	9
Ohio	5
Oklahoma	2
Oregon	2
Pennsylvania	3
South Carolina	3
Tennessee	7

Texas	14
Utah	1
Virginia	10
Washington	1
Wisconsin	4
Total	144

As of February 28, 2015, we leased 57 of our 144 used car stores, our new car store and our CAF office building in Atlanta, Georgia. We owned the remaining 87 used car stores currently in operation. We also owned our home office building in Richmond, Virginia, and land associated with planned future store openings.

Expansion

Since opening our first used car store in 1993, we have grown organically, through the construction and opening of company-operated stores. We do not franchise our operations. As of February 28, 2015, we operated 144 used car stores in 73 U.S. markets, which covered approximately 61% of the U.S. population. We believe that further geographic expansion and additional fill-in opportunities in existing markets will provide a foundation for future sales and earnings growth. We currently plan to open between 13 and 16 stores in each of the next three fiscal years. In fiscal 2016, we plan to open 14 new stores and relocate one store whose lease is expiring.

For additional details on our future expansion plans, see “Fiscal 2016 Planned Store Openings,” included in Part II, Item 7, of this Form 10-K.

Item 3. Legal Proceedings.

On April 2, 2008, Mr. John Fowler filed a putative class action lawsuit against CarMax Auto Superstores California, LLC and CarMax Auto Superstores West Coast, Inc. in the Superior Court of California, County of Los Angeles. Subsequently, two other lawsuits, Leena Areso et al. v. CarMax Auto Superstores California, LLC and Justin Weaver v. CarMax Auto Superstores California, LLC, were consolidated as part of the Fowler case. The allegations in the consolidated case involved: (1) failure to provide meal and rest breaks or compensation in lieu thereof; (2) failure to pay wages of terminated or resigned employees related to meal and rest breaks and overtime; (3) failure to pay overtime; (4) failure to comply with itemized employee wage statement provisions; (5) unfair competition; and (6) California’s Labor Code Private Attorney General Act. The putative class consisted of sales consultants, sales managers, and other hourly employees who worked for the company in California from April 2, 2004, to the present. On May 12, 2009, the court dismissed all of the class claims with respect to the sales manager putative class. On June 16, 2009, the court dismissed all claims related to the failure to comply with the itemized employee wage statement provisions. The court also granted CarMax's motion for summary adjudication with regard to CarMax's alleged failure to pay overtime to the sales consultant putative class.

The claims currently remaining in the lawsuit regarding the sales consultant putative class are: (1) failure to provide meal and rest breaks or compensation in lieu thereof; (2) failure to pay wages of terminated or resigned employees related to meal and rest breaks; (3) unfair competition; and (4) California’s Labor Code Private Attorney General Act. On November 21, 2011, the court granted CarMax’s motion to compel the plaintiffs’ remaining claims into arbitration on an individual basis. The plaintiffs appealed the court’s ruling and on March 26, 2013, the California Court of Appeal reversed the trial court's order granting CarMax's motion to compel arbitration. On October 8, 2013, CarMax filed a petition for a writ of certiorari seeking review in the United States Supreme Court. On February 24, 2014, the United States Supreme Court granted CarMax's petition for certiorari, vacated the California Court of Appeal decision and remanded the case to the California Court of Appeal for further consideration. The California Court of Appeal determined that Plaintiffs' Labor Code Private Attorney General Act claim is not subject to arbitration, but the remaining claims are subject to arbitration on an individual basis. CarMax appealed this decision on March 9, 2015 by filing a petition for review with the California Supreme Court. The Fowler lawsuit seeks compensatory and special damages, wages, interest, civil and statutory penalties, restitution, injunctive relief and the recovery of attorneys’ fees. We are unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable outcome in this matter.

We are involved in various other legal proceedings in the normal course of business. Based upon our evaluation of information currently available, we believe that the ultimate resolution of any such proceedings will not have a material adverse effect, either individually or in the aggregate, on our financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

None.

Executive Officers of the Registrant

The following table identifies our executive officers as of February 28, 2015. We are not aware of any family relationships among any of our executive officers or between any of our executive officers and any directors. All executive officers are elected annually and serve for one year or until their successors are elected and qualify. The next election of officers will occur in June 2015.

Name	Age	Office
Thomas J. Folliard	50	President, Chief Executive Officer and Director
William D. Nash	45	Executive Vice President, Human Resources and Administrative Services
Thomas W. Reedy	50	Executive Vice President and Chief Financial Officer
William C. Wood, Jr.	48	Executive Vice President, Stores
Jon G. Daniels	43	Senior Vice President, CarMax Auto Finance
Edwin J. Hill	55	Senior Vice President, Strategy and Business Transformation
James Lyski	52	Senior Vice President and Chief Marketing Officer
Eric M. Margolin	61	Senior Vice President, General Counsel and Corporate Secretary
Shamim Mohammad	46	Senior Vice President and Chief Information Officer

Mr. Folliard joined CarMax in 1993 as senior buyer and became director of purchasing in 1994. He was promoted to vice president of merchandising in 1996, senior vice president of store operations in 2000 and executive vice president of store operations in 2001. Mr. Folliard became president and chief executive officer and a director of CarMax in 2006.

Mr. Nash joined CarMax in 1997 as auction manager. In 2007, he was promoted to vice president and later, senior vice president of merchandising, a position he held until October 2011, when he was named senior vice president, human resources and administrative services. In March 2012, he was promoted to executive vice president, human resources and administrative services. Prior to joining CarMax, Mr. Nash worked at Circuit City.

Mr. Reedy joined CarMax in 2003 as its vice president and treasurer and, in January 2010, was promoted to senior vice president, finance. In October 2010, Mr. Reedy was promoted to senior vice president and chief financial officer. In March 2012, he was promoted to executive vice president and chief financial officer. Prior to joining CarMax, Mr. Reedy was vice president, corporate development and treasurer of Gateway, Inc.

Mr. Wood joined CarMax in 1993 as a buyer-in-training. He has served as buyer, purchasing manager, district manager, regional director and director of buyer development. He was promoted to vice president, merchandising in 1998, vice president of sales operations in 2007, senior vice president, sales in 2010, and senior vice president, stores in 2011. In March 2012, he was promoted to executive vice president, stores. Prior to joining CarMax, Mr. Wood worked at Circuit City from 1989 to 1993.

Mr. Daniels joined CarMax in 2008 as vice president, risk and analytics. In 2014, he was promoted to senior vice president, CarMax Auto Finance. Prior to joining CarMax, Mr. Daniels served as Group Director, Credit Risk Management of HSBC and Vice President of Metris.

Mr. Hill joined CarMax in 1995 as director of service operations and, in 2001, was promoted to vice president of service operations, a position he held until 2010, when he was promoted to senior vice president of service operations. In 2013, Mr. Hill was promoted to senior vice president, strategy and transformation. Prior to joining CarMax, Mr. Hill was vice president of advanced programs at Reveo, Inc. and vice president of operations at Hypres.

Mr. Lyski joined CarMax in August 2014 as Chief Marketing Officer and Senior Vice President. Prior to joining CarMax, he served as chief marketing officer of The Scotts Miracle-Gro Company from 2011 to 2014 and as chief marketing officer at Nationwide Mutual Insurance Company from 2006 to 2010. In addition, Mr. Lyski has held marketing leadership positions at Cigna Healthcare Inc. and FedEx Corporation.

Mr. Margolin joined CarMax in 2007 as senior vice president, general counsel and corporate secretary. Prior to joining CarMax, he was senior vice president, general counsel and corporate secretary with Advance Auto Parts, Inc. and vice president, general counsel and corporate secretary with Tire Kingdom, Inc.

Mr. Mohammad joined CarMax in 2012 as Vice President of Application Development and IT Planning. In 2014 he was promoted to Senior Vice President and Chief Information Officer. Prior to joining CarMax, Mr. Mohammad was vice president of information technology at BJ's Wholesale Club from 2006 to 2012 and held various positions at Blockbuster and TravelCLICK.

PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed and traded on the New York Stock Exchange under the ticker symbol KMX. We are authorized to issue up to 350,000,000 shares of common stock and up to 20,000,000 shares of preferred stock. As of February 28, 2015, there were 208,869,688 shares of CarMax common stock outstanding and we had approximately 4,100 shareholders of record. As of that date, there were no preferred shares outstanding.

The following table presents the quarterly high and low sales prices per share for our common stock for each quarter during the last two fiscal years, as reported on the New York Stock Exchange composite tape.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 2015				
High	$ 49.68	$ 53.70	$ 57.28	$ 68.71
Low	$ 42.54	$ 43.80	$ 43.27	$ 55.86
Fiscal 2014				
High	$ 48.86	$ 50.00	$ 52.47	$ 53.08
Low	$ 38.13	$ 42.21	$ 45.91	$ 43.90

We have not paid any dividends on our common stock and do not plan to pay dividends on our common stock for the foreseeable future. We anticipate that for the foreseeable future any cash flow generated from our operations will be used to fund our existing operations, capital expenditures and share repurchase program.

During the fourth quarter of fiscal 2015, we sold no CarMax equity securities that were not registered under the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

The following table provides information relating to the company’s repurchase of common stock during the fourth quarter of fiscal 2015. The table does not include transactions related to employee equity awards or the exercises of employee stock options.

	Total Number	Average	Total Number of Shares Purchased	Approximate Dollar Value of Shares that May Yet Be

Period	of Shares Purchased	Price Paid per Share	as Part of Publicly Announced Programs	Purchased Under the Programs (1)
December 1-31, 2014	1,714,282	$ 59.22	1,714,282	$ 2,478,034,222
January 1-31, 2015	1,087,039	$ 63.81	1,087,039	$ 2,408,945,235
February 1-28, 2015	608,169	$ 65.25	608,169	$ 2,369,263,123
Total	3,409,490		3,409,490	

(1) In fiscal 2013, our board of directors authorized the repurchase of up to $800 million of our common stock which was exhausted in fiscal 2015. In fiscal 2015, our board of directors authorized the repurchase of up to an additional $3.0 billion of our common stock of which $1 billion expires on December 31, 2015, and $2 billion expires on December 31, 2016. Purchases may be made in open market or privately negotiated transactions at management's discretion and the timing and amount of repurchases are determined based on share price, market conditions, legal requirements and other factors. Shares repurchased are deemed authorized but unissued shares of common stock.

Performance Graph

The following graph compares the cumulative total shareholder return (stock price appreciation plus dividends, as applicable) on our common stock for the last five fiscal years with the cumulative total return of the S&P 500 Index and the S&P 500 Retailing Index. The graph assumes an original investment of $100 in CarMax common stock and in each index on February 28, 2010, and the reinvestment of all dividends, as applicable.

	As of February 28 or 29					
	2010	2011	2012	2013	2014	2015
CarMax	$ 100.00	$ 175.19	$ 152.01	$ 190.24	$ 239.87	$ 332.39
S&P 500 Index	$ 100.00	$ 122.57	$ 128.85	$ 146.20	$ 183.29	$ 211.71
S&P 500 Retailing Index	$ 100.00	$ 123.27	$ 141.51	$ 174.03	$ 233.78	$ 282.84

Item 6. Selected Financial Data.

(Dollars and shares in millions, except per share or per unit data)	FY15	FY14	FY13	FY12	FY11
Income statement information					
Used vehicle sales	$ 11,674.5	$ 10,306.3	$ 8,747.0	$ 7,826.9	$ 7,210.0
Wholesale vehicle sales	2,049.1	1,823.4	1,759.6	1,721.6	1,301.7
Net sales and operating revenues	14,268.7	12,574.3	10,962.8	10,003.6	8,975.6
Gross profit	1,887.5	1,648.7	1,464.4	1,378.8	1,301.2
CarMax Auto Finance income	367.3	336.2	299.3	262.2	220.0
Selling, general and administrative expenses	1,257.7	1,155.2	1,031.0	940.8	878.8
Net earnings	597.4	492.6	434.3	413.8	377.5
Share and per share information					
Weighted average diluted shares outstanding	218.7	227.6	231.8	230.7	227.6
Diluted net earnings per share	$ 2.73	$ 2.16	$ 1.87	$ 1.79	$ 1.65
Balance sheet information					
Auto loan receivables, net	$ 8,435.5	$ 7,147.8	$ 5,895.9	$ 4,959.8	$ 4,320.6
Total assets	13,198.2	11,707.2	9,888.6	8,331.5	7,125.5
Total current liabilities	997.2	875.5	684.2	646.3	522.7
Total notes payable and other debt:					
Non-recourse notes payable	8,470.6	7,248.4	5,855.1	4,684.1	4,013.6
Other	638.6	334.9	354.0	368.7	381.2
Unit sales information					
Used vehicle units sold	582,282	526,929	447,728	408,080	396,181
Wholesale vehicle units sold	376,186	342,576	324,779	316,649	263,061
Per unit information					
Used vehicle gross profit	$ 2,179	$ 2,171	$ 2,170	$ 2,177	$ 2,156
Wholesale vehicle gross profit	970	916	949	953	908
SG&A per retail unit	2,128	2,161	2,263	2,263	2,173
Percent changes in					
Comparable store used vehicle unit sales	4.4 %	12.2 %	5.4 %	1.3 %	9.8 %
Total used vehicle unit sales	10.5	17.7	9.7	3.0	10.9
Wholesale vehicle unit sales	9.8	5.5	2.6	20.4	33.3
Other year-end information					
Used car stores	144	131	118	108	103
Associates	22,064	20,171	18,111	16,460	15,565

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements and the accompanying notes presented in Item 8, Consolidated Financial Statements and Supplementary Data. Note references are to the notes to consolidated financial statements included in Item 8. Certain prior year amounts have been reclassified to conform to the current year's presentation. All references to net earnings per share are to diluted net earnings per share. Amounts and percentages may not total due to rounding.

OVERVIEW

See Part 1. Item 1 for a detailed description and discussion of the company's business.

CarMax is the nation's largest retailer of used vehicles. We operate in two reportable segments: CarMax Sales Operations and CarMax Auto Finance ("CAF"). Our CarMax Sales Operations segment consists of all aspects of our auto merchandising and service operations, excluding financing provided by CAF. Our CAF segment consists solely of our own finance operation that provides vehicle financing through CarMax stores.

CarMax Sales Operations

Our sales operations segment consists of retail sales of used vehicles and related products and services, such as wholesale vehicle sales; the sale of extended protection plan ("EPP") products, which include extended service plans ("ESP") and guaranteed asset protection ("GAP"); and vehicle repair service. GAP is designed to cover the unpaid balance on an auto loan in the event of a total loss of the vehicle or unrecovered theft. We focus on addressing the major sources of customer dissatisfaction with traditional auto retailers while maximizing operating efficiencies. We offer low, no haggle prices; a broad selection of CarMax Quality Certified used vehicles; value-added EPP products; and superior customer service.

Our customers finance the majority of the retail vehicles purchased from us, and the availability of on-the-spot financing is a critical component of the sales process. We provide financing to qualified retail customers through CAF and our arrangements with several industry-leading third-party finance providers. All of the finance offers, whether by CAF or our third-party providers, are backed by a 3 day payoff option.

As of February 28, 2015, we operated 144 used car stores in 73 markets, covering 47 mid-sized markets, 20 large markets and 6 small markets. We define mid-sized markets as those with television viewing populations generally between 600,000 and 3 million people. As of that date, we also conducted wholesale auctions at 62 used car stores and we operated four new car franchises.

CarMax Auto Finance

In addition to third-party financing providers, we provide vehicle financing through CAF, which offers financing solely to our customers in our stores. CAF allows us to manage our reliance on third-party financing providers and to leverage knowledge of our business to provide qualifying customers a competitive financing option. As a result, we believe CAF enables us to capture additional profits, cash flows and sales. After the effect of 3-day payoffs and vehicle returns, CAF financed 41.2% of our retail vehicle unit sales in fiscal 2015. As of February 28, 2015, CAF serviced approximately 619,000 customer accounts in its $8.46 billion portfolio of managed receivables.

Management regularly analyzes CAF's operating results by assessing the competitiveness of our consumer offer, profitability, the performance of the auto loan receivables including trends in credit losses and delinquencies, and CAF direct expenses.

Revenues and Profitability

During fiscal 2015, net sales and operating revenues increased 13.5%, net earnings grew 21.3% and net earnings per share increased 26.4%. These year-over-year comparisons benefited from the receipt of proceeds in a class action lawsuit in fiscal 2015 and a correction to our accounting related to cancellation reserves for EPP products in fiscal 2014. Excluding these items, fiscal 2015 net earnings grew 15.9% and net earnings per share increased 20.3%.

Our primary source of revenue and net income is the retail sale of used vehicles. During fiscal 2015, we sold 582,282 used cars, representing 98.5% of the total 591,149 vehicles we sold at retail, 81.8% of our net sales and operating revenues and 67.2% of our gross profit. Used vehicle unit sales grew 10.5%, including a 4.4% increase in comparable store used units and sales from newer stores not yet included in the comparable store base.

Wholesale sales are also a significant contributor to our revenues and net income. During fiscal 2015, we sold 376,186 wholesale vehicles, representing 14.4% of our net sales and operating revenues and 19.3% of our gross profit. Wholesale vehicle unit sales grew 9.8%, reflecting improved appraisal traffic and the growth in our store base.

During fiscal 2015, other sales and revenues, which include commissions earned on the sale of EPP products, service department sales and net third-party finance fees, increased 31.2%. Excluding the prior year's EPP cancellation reserve correction, other sales and revenues grew 21.0%, primarily due to the growth in retail unit sales. These items represented 13.1% of our gross profit.

Income from our CAF segment totaled $367.3 million in fiscal 2015, up 9.3% compared with fiscal 2014. CAF income primarily reflects the interest and fee income generated by the auto loan receivables less the interest expense associated with the debt issued to fund these receivables, a provision for estimated loan losses and direct CAF expenses. CAF income does not include any allocation of indirect costs.

Liquidity

Our primary ongoing sources of liquidity include funds provided by operations, proceeds from securitization transactions, and borrowings under our revolving credit facility or through other sources. During fiscal 2015, liquidity was primarily provided by $1.22 billion in net issuances of non-recourse notes payable, $627.9 million of cash and cash equivalents on hand at the start of the year, a $300 million term loan and $254.1 million of adjusted net cash provided by operations, a non-GAAP measure. This liquidity was primarily used to fund the increase in CAF auto loan receivables, the 17.5 million common shares repurchased under our share repurchase program and our store growth.

In fiscal 2015, net cash used in operating activities totaled $968.1 million, while net cash provided by operating activities excluding the increase in securitized auto loan receivables equaled $254.1 million. When considering cash provided by operating activities, management does not include increases in auto loan receivables that have been securitized with non-recourse notes payable, which are separately reflected as cash provided by financing activities. For a reconciliation of adjusted net cash provided by operations to net cash used in operating activities, the most directly comparable GAAP financial measure, see "Reconciliation of Adjusted Net Cash from Operating Activities" included in "FINANCIAL CONDITION - Liquidity and Capital Resources."

Future Outlook

Over the long term, we believe the primary driver for earnings growth will be vehicle unit sales growth from both new stores and stores included in our comparable store base. We also believe that increased used vehicle unit sales will drive increased sales of wholesale vehicles and ancillary products and, over time, increased CAF income. To expand our vehicle unit sales at new and existing stores, we will need to continue delivering an unrivaled customer experience and hiring and developing the associates necessary to drive our success, while managing the risks posed by an evolving competitive environment. In addition, to support our store growth plans, we will need to continue procuring suitable real estate at favorable terms.

We are still in the midst of the national rollout of our retail concept, and as of February 28, 2015, we had used car stores located in markets that comprised approximately 61% of the U.S. population. We opened 10 stores in fiscal 2013, 13 stores in fiscal 2014 and 13 stores in fiscal 2015. We currently plan to open between 13 and 16 stores in each of the next three fiscal years. In fiscal 2016, we plan to open 14 new stores and relocate one store whose lease is expiring. See "Fiscal 2016 Planned Store Openings" included elsewhere in MD&A for a detailed list of fiscal 2016 planned store openings.

See “Risk Factors,” included in Part I. Item 1A of this Form 10-K for additional information about risks and uncertainties facing our Company.

CRITICAL ACCOUNTING POLICIES

Our results of operations and financial condition as reflected in the consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. Preparation of financial statements requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, expenses and the disclosures of contingent assets and liabilities. We use our historical experience and other relevant factors when developing our estimates and assumptions. We regularly evaluate these estimates and assumptions. Note 2 includes a discussion of significant accounting policies. The accounting policies discussed below are the ones we consider critical to an understanding of our consolidated financial statements because their application places the most significant demands on our judgment. Our financial results might have been different if different assumptions had been used or other conditions had prevailed.

Financing and Securitization Transactions

We maintain a revolving securitization program composed of two warehouse facilities ("warehouse facilities") that we use to fund auto loan receivables originated by CAF until we elect to fund them through a term securitization or alternative funding arrangement. We recognize transfers of auto loan receivables into the warehouse facilities and term securitizations as secured borrowings, which result in recording the auto loan receivables and the related non-recourse notes payable on our consolidated balance sheets. CAF income included in the consolidated statements of earnings primarily reflects the interest and fee income generated by the auto loan receivables less the interest expense associated with the debt issued to fund these receivables, a provision for estimated loan losses and direct CAF expenses.

Auto loan receivables include amounts due from customers related to retail vehicle sales financed through CAF. The receivables are presented net of an allowance for estimated loan losses. The allowance for loan losses represents an estimate of the amount of net losses inherent in our portfolio of managed receivables as of the applicable reporting date and anticipated to occur during the following 12 months. The allowance is primarily based on the credit quality of the underlying receivables, historical loss trends and forecasted forward loss curves. We also take into account recent trends in delinquencies and losses, recovery rates and the economic environment. The provision for loan losses is the periodic expense of maintaining an adequate allowance.

See Notes 2(F), 2(I) and 4 for additional information on securitizations and auto loan receivables.

Revenue Recognition

We recognize revenue when the earnings process is complete, generally either at the time of sale to a customer or upon delivery to a customer. As part of our customer service strategy, we guarantee the retail vehicles we sell with a 5 day, money-back guarantee. We record a reserve for estimated returns based on historical experience and trends, and results could be affected if future vehicle returns differ from historical averages.

We also sell ESPs and GAP on behalf of unrelated third parties, who are the primary obligors, to customers who purchase a vehicle. The ESPs we currently offer on all used vehicles provide coverage up to 60 months (subject to mileage limitations), while GAP covers the customer for the term of their finance contract. We recognize commission revenue at the time of sale, net of a reserve for estimated contract cancellations. Periodically, we may receive additional commissions based upon the level of underwriting profits of the third parties who administer the products. These additional commissions are recognized as revenue when received. The reserve for cancellations is evaluated for each product, and is based on forecasted forward cancellation curves utilizing historical experience, recent trends and credit mix of the customer base. Our risk related to contract cancellations is limited to the commissions that we receive. Cancellations fluctuate depending on the volume of ESP and GAP sales, customer financing default or prepayment rates, and shifts in customer behavior related to changes in the coverage or term of the product. Results could be affected if actual events differ from our estimates. A 10% change in the estimated cancellation rates would have changed cancellation reserves by approximately $9.4 million as of February 28, 2015. See Note 8 for additional information on cancellation reserves.

Customers applying for financing who are not approved by CAF may be evaluated by other third-party finance providers. These providers generally either pay us or are paid a fixed, pre-negotiated fee per contract. We recognize these fees at the time of sale.

We collect sales taxes and other taxes from customers on behalf of governmental authorities at the time of sale. These taxes are accounted for on a net basis and are not included in net sales and operating revenues or cost of sales.

Income Taxes

Estimates and judgments are used in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets. In the ordinary course of business, transactions occur for which the ultimate tax outcome is uncertain at the time of the transactions. We adjust our income tax provision in the period in which we determine that it is probable that our actual results will differ from our estimates. Tax law and rate changes are reflected in the income tax provision in the period in which such changes are enacted. See Note 9 for additional information on income taxes.

We evaluate the need to record valuation allowances that would reduce deferred tax assets to the amount that will more likely than not be realized. When assessing the need for valuation allowances, we consider available carrybacks, future reversals of existing temporary differences and future taxable income. Except for a valuation allowance recorded for capital loss carryforwards that may not be utilized before their expiration, we believe that our recorded deferred tax assets as of February 28, 2015, will more likely than not be realized. However, if a change in circumstances results in a change in our ability to realize our deferred tax assets, our tax provision would be affected in the period when the change in circumstances occurs.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize potential liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If payments of these amounts ultimately prove to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result in the period of determination.

RESULTS OF OPERATIONS – CARMAX SALES OPERATIONS

Net Sales and Operating Revenues

	Years Ended February 28				
(In millions)	2015	Change	2014	Change	2013
Used vehicle sales	$ 11,674.5	13.3 %	$ 10,306.3	17.8 %	$ 8,747.0
New vehicle sales	240.0	13.2 %	212.0	2.1 %	207.7
Wholesale vehicle sales	2,049.1	12.4 %	1,823.4	3.6 %	1,759.6
Other sales and revenues:					
Extended service plan revenues	255.7	22.4 %	208.9	3.0 %	202.9
Service department sales	113.1	6.3 %	106.4	4.6 %	101.8
Third-party finance fees, net	(63.7)	23.0 %	(82.8)	(47.6) %	(56.1)
Total other sales and revenues	305.1	31.2 %	232.6	(6.4) %	248.6
Total net sales and operating revenues	$ 14,268.7	13.5 %	$ 12,574.3	14.7 %	$ 10,962.8

Unit Sales

	Years Ended February 28		
	2015	2014	2013
Used vehicles	582,282	526,929	447,728
New vehicles	8,867	7,761	7,855
Wholesale vehicles	376,186	342,576	324,779

Average Selling Prices

	Years Ended February 28		
	2015	2014	2013
Used vehicles	$ 19,897	$ 19,408	$ 19,351
New vehicles	$ 26,959	$ 27,205	$ 26,316
Wholesale vehicles	$ 5,273	$ 5,160	$ 5,268

Comparable Store Used Vehicle Sales Changes

	Years Ended February 28		
	2015	2014	2013
Used vehicle units	4.4 %	12.2 %	5.4 %
Used vehicle dollars	7.0 %	12.4 %	7.5 %

Stores are added to the comparable store base beginning in their fourteenth full month of operation. We do not remove renovated stores from our comparable store base. Comparable store calculations include results for a set of stores that were included in our comparable store base in both the current and corresponding prior year periods.

Vehicle Sales Changes

	Years Ended February 28		
	2015	2014	2013
Used vehicle units	10.5 %	17.7 %	9.7 %
Used vehicle revenues	13.3 %	17.8 %	11.8 %
Wholesale vehicle units	9.8 %	5.5 %	2.6 %
Wholesale vehicle revenues	12.4 %	3.6 %	2.2 %

Change in Used Car Store Base

	Years Ended February 28		
	2015	2014	2013
Used car stores, beginning of year	131	118	108
Store openings	13	13	10
Used car stores, end of year	144	131	118

The fiscal 2015 store openings included 10 stores in 9 new markets (1 store each in Rochester, New York; Dothan, Alabama; Spokane, Washington; Madison, Wisconsin; Lynchburg, Virginia; Tupelo, Mississippi; Reno, Nevada; and Cleveland, Ohio; and 2 stores in Portland, Oregon) and 3 stores in existing markets (Harrisburg/Lancaster, Pennsylvania; Dallas, Texas; and Raleigh, North Carolina). The Dothan, Lynchburg, and Tupelo stores are small format stores.

In recent years, we have tested small format stores, which generally are located in smaller markets where the sales opportunity is below that of mid-sized and large markets. While these stores are anticipated to sell fewer vehicles compared with our stores in larger markets, they have a smaller footprint, employ fewer associates and have less overhead compared with other CarMax stores. Based on performance in our test stores, we are incorporating additional small format stores into our future store opening plans.

Used Vehicle Sales

Fiscal 2015 Versus Fiscal 2014. The 13.3% increase in used vehicle revenues in fiscal 2015 resulted from a 10.5% increase in used unit sales and a 2.5% increase in average retail vehicle selling price. The increase in used unit sales included a 4.4% increase in comparable store used unit sales and sales from newer stores not yet included in the comparable store base. The comparable store used unit growth reflected improved customer traffic, as well as improved conversion. Our data indicates that in our markets, we increased our share of the 0- to 10-year old used vehicle market by approximately 5% in calendar 2014.

The increase in average retail vehicle selling price primarily reflected changes in our sales mix, with an increased mix of 0-to 4-year old vehicles in fiscal 2015. From 2008 through 2012, new car industry sales were at rates significantly below pre-recession levels, which affected the overall supply and acquisition costs of late-model used vehicles. As the supply of later-model used vehicles has gradually improved, our inventory mix has shifted accordingly.

Fiscal 2014 Versus Fiscal 2013. The 17.8% increase in used vehicle revenues in fiscal 2014 resulted from a corresponding increase in used unit sales. The increase in unit sales included a 12.2% increase in comparable store used unit sales and sales from newer stores not yet included in the comparable store base. The comparable store used unit growth was primarily driven by improved conversion, as well as a modest increase in store traffic. We believe the strong conversion reflected continued improvements in execution in our stores and an attractive credit environment experienced during fiscal 2014. Our data indicates that in our markets, we increased our share of the 0- to 10-year old used vehicle market by approximately 16% in fiscal 2014.

Wholesale Vehicle Sales

Our wholesale auction prices usually reflect the trends in the general wholesale market for the types of vehicles we sell, although they can also be affected by changes in vehicle mix or the average age, mileage or condition of the vehicles bought through our appraisal process and sold in our auctions.

Fiscal 2015 Versus Fiscal 2014. The 12.4% increase in wholesale vehicle revenues in fiscal 2015 resulted from a 9.8% increase in wholesale unit sales and a 2.2% increase in average wholesale vehicle selling price. The wholesale unit growth reflected both an increase in the appraisal buy rate and the growth in our store base.

Fiscal 2014 Versus Fiscal 2013. The 3.6% increase in wholesale vehicle revenues in fiscal 2014 resulted from a 5.5% increase in wholesale unit sales, partially offset by a 2.1% reduction in average wholesale vehicle selling price. The wholesale unit growth primarily reflected the growth in our store base, as well as an increase in the appraisal buy rate. However, we experienced a reduced mix of wholesale vehicles in our appraisal traffic that partially offset the benefit of our store growth and increased buy rate.

Other Sales and Revenues

Other sales and revenues include commissions on the sale of ESPs and GAP (collectively reported in EPP revenues, net of a reserve for estimated contract cancellations), service department sales and net third-party finance fees. The fixed, per-vehicle fees that we pay to the Tier 3 providers are reflected as an offset to finance fee revenues received from the Tier 2 providers.

During fiscal 2014, we corrected our accounting related to cancellation reserves for ESP and GAP, with resulting increases in reserves related to activity for fiscal 2014, fiscal 2013 and fiscal 2012. The portion related to fiscal 2013 and fiscal 2012 was $19.5 million, or $0.05 per share. In the following discussions, where indicated, year-over-year comparisons exclude the portion of the correction that related to earlier fiscal years.

Fiscal 2015 Versus Fiscal 2014. Excluding the prior year’s EPP cancellation reserve correction, other sales and revenues grew 21.0% in fiscal 2015. EPP revenue grew 11.9% excluding the prior year’s cancellation reserve correction, largely reflecting the increase in our retail unit sales. Net third-party finance fees improved 23.0% primarily due to a mix shift among providers, including an increase in the percentage of our retail unit sales financed by the Tier 2 providers and a reduction in the percentage financed by the Tier 3 providers. The percentage of retail vehicles financed by Tier 3 providers, combined with those financed under the previously announced CAF loan origination test, was 15.6% in fiscal 2015 compared with 18.8% in fiscal 2014.

Fiscal 2014 Versus Fiscal 2013. Excluding the EPP cancellation reserve correction, other sales and revenues increased 1.4% in fiscal 2014. EPP revenue grew 12.6% excluding the cancellation reserve correction, reflecting the increase in our retail unit sales and a higher EPP penetration rate, partially offset by higher estimated cancellation reserve rates. The $26.7 million decrease in net third-party finance fees was driven by a mix shift among providers, including an increase in the percentage of our retail unit sales financed by Tier 3 providers to 18.8% in fiscal 2014 versus 15.9% in fiscal 2013. Throughout fiscal 2013 and for most of fiscal 2014, the volume and share of financing originated by the Tier 3 providers increased on a year-over-year basis, as these providers made more attractive offers to customers. In the fourth quarter of fiscal 2014, however, the Tier 3 providers moderated their credit offerings, and as a result, their share of financings for the fourth quarter was flat with fiscal 2013.

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Gross Profit

	Years Ended February 28				
(In millions)	2015	Change	2014	Change	2013
Used vehicle gross profit	$ 1,268.5	10.9 %	$ 1,143.9	17.7 %	$ 971.5
New vehicle gross profit	6.0	33.8 %	4.5	(9.5) %	5.0
Wholesale vehicle gross profit	364.9	16.3 %	313.9	1.9 %	308.1
Other gross profit	248.1	33.1 %	186.5	3.7 %	179.8
Total	$ 1,887.5	14.5 %	$ 1,648.7	12.6 %	$ 1,464.4

Gross Profit per Unit

	Years Ended February 28					
	2015		2014		2013	
	$ per unit (1)	%(2)	$ per unit (1)	%(2)	$ per unit (1)	%(2)
Used vehicle gross profit	$ 2,179	10.9	$ 2,171	11.1	$ 2,170	11.1
New vehicle gross profit	$ 676	2.5	$ 577	2.1	$ 630	2.4
Wholesale vehicle gross profit	$ 970	17.8	$ 916	17.2	$ 949	17.5
Other gross profit	$ 420	81.3	$ 349	80.2	$ 395	72.3
Total gross profit	$ 3,193	13.2	$ 3,083	13.1	$ 3,214	13.4

(1) Calculated as category gross profit divided by its respective units sold, except the other and total categories, which are divided by total retail units sold.
(2) Calculated as a percentage of its respective sales or revenue.

Used Vehicle Gross Profit

We target a dollar range of gross profit per used unit sold. The gross profit dollar target for an individual vehicle is based on a variety of factors, including its anticipated probability of sale and its mileage relative to its age; however, it is not primarily based on the vehicle's selling price. Our ability to quickly adjust appraisal offers to be consistent with the broader market trade-in trends and the pace of our inventory turns reduce our exposure to the inherent continual fluctuation in used vehicle values and contribute to our ability to manage gross profit dollars per unit.

We systematically mark down individual vehicle prices based on proprietary pricing algorithms in order to appropriately balance sales trends, inventory turns and gross profit achievement. Other factors that may influence gross profit include changes in our vehicle reconditioning costs, changes in the percentage of vehicles sourced directly from consumers through our appraisal process and changes in the wholesale pricing environment. Vehicles purchased directly from consumers typically generate more gross profit per unit compared with vehicles purchased at auction or through other channels.

Fiscal 2015 Versus Fiscal 2014. The 10.9% increase in used vehicle gross profit in fiscal 2015 was driven by the corresponding increase in used unit sales. Used vehicle gross profit per unit remained consistent.

Fiscal 2014 Versus Fiscal 2013. The 17.7% increase in used vehicle gross profit in fiscal 2014 was driven by the corresponding increase in used unit sales. Used vehicle gross profit per unit remained consistent.

Wholesale Vehicle Gross Profit

Our wholesale gross profit per unit reflects the demand for older, higher mileage vehicles, which are the mainstay of our auctions, as well as the continued strong dealer attendance and resulting high dealer-to-car ratios at our auctions. The frequency of our auctions, which are generally held weekly or bi-weekly, minimizes the depreciation risk on these vehicles. Our ability to adjust appraisal offers in response to the wholesale pricing environment is a key factor that influences wholesale gross profit.

Fiscal 2015 Versus Fiscal 2014. The 16.3% increase in wholesale vehicle gross profit in fiscal 2015 reflected the combination of the 9.8% increase in wholesale unit sales with a 5.9% increase in wholesale gross profit per unit.

Fiscal 2014 Versus Fiscal 2013. The 1.9% increase in wholesale vehicle gross profit in fiscal 2014 reflected the 5.5% increase in wholesale unit sales partially offset by a 3.5% reduction in wholesale gross profit per unit.

Other Gross Profit

Other gross profit includes profits related to EPP revenues, net third-party finance fees and service department operations, including used vehicle reconditioning. We have no cost of sales related to EPP revenues or net third-party finance fees, as these represent commissions paid to us by certain third-party providers. Third-party finance fees are reported net of the fees we pay to third-party Tier 3 finance providers. Accordingly, changes in the relative mix of the other gross profit components can affect the composition and amount of other gross profit.

The fiscal 2014 correction in accounting for EPP cancellation reserves reduced fiscal 2014 other gross profit by $19.5 million related to activity for fiscal 2013 and fiscal 2012.

Fiscal 2015 Versus Fiscal 2014. Excluding the prior year's EPP cancellation reserve correction, other gross profit increased 20.5% in fiscal 2015, consistent with the changes in other sales and revenues discussed above.

Fiscal 2014 Versus Fiscal 2013. Excluding the EPP cancellation reserve correction, other gross profit increased 14.6% in fiscal 2014. This change reflected the net effects of the 12.6% increase in EPP revenues excluding the cancellation reserve correction, the $26.7 million decrease in net third-party finance fees and higher service department gross profits. The $27.3 million increase in fiscal 2014 service department gross profit primarily reflected increases in gross profit associated with used vehicle reconditioning, which benefited from strong used unit sales growth and the resulting leverage of service overhead costs.

Impact of Inflation

Historically, inflation has not had a significant impact on results. Profitability is primarily affected by our ability to achieve targeted unit sales and gross profit dollars per vehicle rather than by changes in average retail prices. However, increases in average vehicle selling prices benefit CAF income, to the extent the average amount financed also increases.

In the years following the recession, we experienced a period of appreciation in used vehicle wholesale pricing. We believe the appreciation resulted, in part, from a reduced supply of late-model used vehicles in the market. This reduced supply was caused by the dramatic decline in new car industry sales and the associated slow down in used vehicle trade-in activity, compared with pre-recession periods. The higher wholesale values increased both our vehicle acquisition costs and our used vehicle average selling prices, which climbed from $16,291 in fiscal 2009 to $19,897 in fiscal 2015.

Selling, General and Administrative Expenses

Components of SG&A Expense

	Years Ended February 28				
(In millions except per unit data)	2015	Change	2014	Change	2013
Compensation and benefits (1)	$ 730.4	11.2 %	$ 656.7	12.9 %	$ 581.9
Store occupancy costs	243.5	12.3	216.8	8.5	199.9
Advertising expense	122.8	9.4	112.2	5.6	106.3
Other overhead costs (2)	161.0	(5.0)	169.5	18.6	142.9
Total SG&A expenses	$ 1,257.7	8.9 %	$ 1,155.2	12.0 %	$ 1,031.0
SG&A per retail unit	$ 2,128	$ (33)	$ 2,161	$ (102)	$ 2,263

(1) Excludes compensation and benefits related to reconditioning and vehicle repair service, which are included in cost of sales.

(2) Includes IT expenses, insurance, non-CAF bad debt, travel, preopening and relocation costs, charitable contributions and other administrative expenses. Costs for fiscal 2015 were reduced by $20.9 million in connection with the receipt of settlement proceeds in a class action lawsuit.

Fiscal 2015 Versus Fiscal 2014. SG&A expenses for fiscal 2015 were reduced by $20.9 million, or $0.06 per share, which represented our receipt of settlement proceeds in a class action lawsuit related to the economic loss associated with certain Toyota vehicles. Excluding this gain, SG&A expenses grew 10.7% in fiscal 2015. This increase reflected the combination of several factors, including the 10% increase in our store base during fiscal 2015 (representing the addition of 13 stores), higher variable selling costs resulting from the 4.4% increase in comparable store used unit sales, and an $11.5 million increase in share-based compensation expense, which was influenced by the 39% increase in the per share price of our common stock from February 28, 2014 to February 28, 2015. Excluding the settlement gain, SG&A per retail unit was $2,163 in fiscal 2015, similar to the fiscal 2014 level.

Fiscal 2014 Versus Fiscal 2013. The 12.0% increase in SG&A expense in fiscal 2014 reflected the 11% increase in our store base (representing the addition of 13 stores) and higher variable selling costs resulting from the 12.2% increase in comparable store used unit sales. SG&A costs were also affected by the increase in the rate of our store openings, from 10 stores in fiscal 2013 to 13 stores in fiscal 2014. SG&A per retail unit declined as our comparable store used unit sales growth generated overhead leverage.

Interest Expense

Fiscal 2015 Versus Fiscal 2014. Interest expense declined to $24.5 million in fiscal 2015 versus $30.8 million in fiscal 2014. During fiscal 2015, we capitalized $8.9 million in interest costs associated with construction costs of certain facilities. Excluding the capitalized interest costs, the year-over-year increase in interest expense primarily reflected interest expense on a $300 million term loan entered into in November 2014.

Fiscal 2014 Versus Fiscal 2013. Interest expense declined to $30.8 million in fiscal 2014 versus $32.4 million in fiscal 2013. In both years, the interest related primarily to our outstanding finance and capital lease obligations.

Income Taxes

The effective income tax rate was 38.4% in fiscal 2015, 38.2% in fiscal 2014 and 38.1% in fiscal 2013.

RESULTS OF OPERATIONS – CARMAX AUTO FINANCE

CAF income primarily reflects interest and fee income generated by CAF's portfolio of auto loan receivables less the interest expense associated with the debt issued to fund these receivables, a provision for estimated loan losses and direct CAF expenses. CAF income does not include any allocation of indirect costs. Although CAF benefits from certain indirect overhead expenditures, we have not allocated indirect costs to CAF to avoid making subjective allocation decisions. Examples of indirect costs not allocated to CAF include retail store expenses and corporate expenses such as human resources, administrative services, marketing, information systems, accounting, legal, treasury and executive payroll.

CAF's managed portfolio is composed primarily of loans originated over the past several years. Trends in receivable growth and interest margins primarily reflect the cumulative effect of changes in the business over a multi-year period. Trends in portfolio losses and delinquencies are affected by changes in our origination strategies over time, as well as current economic conditions. Current period originations reflect current trends in both our retail sales and the CAF business, including the volume of loans originated, current interest rates charged to consumers, loan terms and average credit scores. Because we recognize CAF income over the life of the underlying auto loan, loans originated in a given fiscal period generally do not have a significant effect on that period's financial results.

See Note 3 for additional information on CAF income and Note 4 for information on auto loan receivables, including credit quality.

Components of CAF Income

	Years Ended February 28					
(In millions)	2015	% (1)	2014	% (1)	2013	% (1)
Interest margin:						
Interest and fee income	$ 604.9	7.7	$ 548.0	8.3	$ 495.3	9.2
Interest expense	(96.6)	(1.2)	(90.0)	(1.4)	(95.1)	(1.8)
Total interest margin	508.3	6.5	458.0	6.9	400.2	7.4
Provision for loan losses	(82.3)	(1.0)	(72.2)	(1.1)	(56.2)	(1.0)
Total interest margin after provision for loan losses	426.0	5.4	385.8	5.8	344.0	6.4
Other income			0.1			
Total direct expenses	(58.7)	(0.7)	(49.7)	(0.8)	(44.7)	(0.8)
CarMax Auto Finance income	$ 367.3	4.7	$ 336.2	5.1	$ 299.3	5.6
Total average managed receivables	$ 7,859.9		$ 6,629.5		$ 5,385.5	

(1) Percent of total average managed receivables.

Fiscal 2015 Versus Fiscal 2014. The 9.3% increase in CAF income resulted from the growth in CAF's average managed receivables, partially offset by a lower total interest margin as a percent of average managed receivables. Average managed receivables grew 18.6% to $7.86 billion in fiscal 2015.

Total interest margin, which reflects the spread between interest and fees charged to consumers and our funding costs, declined as a percentage of total average managed receivables to 6.5% in fiscal 2015 from 6.9% in fiscal 2014. This reflected the combination of (i) a gradual decline in the average contract rate charged on new loan originations in recent years with (ii) an increase in our average funding costs for more recent securitizations. Changes in the interest margin on new originations affect CAF income over time as these loans come to represent an increasing percentage of managed receivables. Rising interest rates, which affect CAF's funding costs, or further competitive pressures on consumer rates could result in further compression in the interest margin on new originations.

Fiscal 2014 Versus Fiscal 2013. The 12.3% increase in CAF income resulted from the growth in CAF's managed receivables, partially offset by a lower total interest margin rate. Average managed receivables grew 23.1% to $6.63 billion in fiscal 2014.

Total interest margin declined to 6.9% in fiscal 2014 from 7.4% in fiscal 2013. A strategic decision made in mid-fiscal 2013 to provide more competitive finance offers contributed to both the decline in the weighted average contract rate on loan originations to 7.0% in fiscal 2014 from 7.9% in fiscal 2013, and to the decline in total interest margin.

CAF Origination Information

	Years Ended February 28 (1)		
	2015	2014	2013
Net loans originated (in millions)	$ 4,727.8	$ 4,183.9	$ 3,445.3
Vehicle units financed	243,264	218,706	179,525
Penetration rate (2)	41.2 %	40.9 %	39.4 %
Weighted average contract rate	7.1 %	7.0 %	7.9 %
Weighted average credit score (3)	701	702	696
Weighted average loan-to-value (LTV) (4)	94.2	93.7	94.8
Weighted average term (in months)	65.4	65.4	65.9

(1) All information relates to loans originated net of 3-day payoffs and vehicle returns.

(2) Vehicle units financed as a percentage of total retail units sold.

(3) The credit scores represent FICO scores, and reflect only receivables with obligors that have a FICO score at the time of application. The FICO score with respect to any receivable with co-obligors is calculated as the average of each obligor's FICO score at the time of application. FICO scores are not a significant factor in our primary scoring model which relies on information from credit bureaus and other application information as discussed in Note 4. FICO® is a federally registered servicemark of Fair Isaac Corporation.

(4) LTV represents the ratio of the amount financed to the total collateral value, which is measured as the vehicle selling price plus applicable taxes, title and fees.

Net loans originated in fiscal 2015 increased 13.0%, primarily reflecting the 13.3% growth in our retail vehicle revenues. The increase in CAF's penetration rate in fiscal 2015 included the effect of an increase in loans originated in the CAF loan origination test.

Net loans originated in fiscal 2014 increased 21.4%, reflecting both the 17.5% growth in our retail vehicle revenues and an increase in CAF's penetration rate, which benefited from favorable responses to the change in our credit offers.

Loan Origination Test. In January 2014, CAF launched a test originating loans for customers who typically would be financed by our Tier 3 finance providers. Through February 28, 2015, net loans originated in this test totaled $72.2 million, of which $63.1 million were originated in fiscal 2015. Because the loans in this test have higher loss and delinquency rates than the aggregate of the current CAF portfolio, they also have higher contract rates. The test is being funded separately from the remainder of CAF's portfolio and is not included in our current securitization program. We currently plan to extend this test at a similar rate of originations while continuing to evaluate the performance of these loans.

Allowance for Loan Losses

	Years Ended February 28			
(In millions)	2015	% (1)	2014	% (1)
Balance as of beginning of year	$ 69.9	0.97	$ 57.3	0.97
Charge-offs	(155.9)		(134.3)	
Recoveries	85.4		74.7	
Provision for loan losses	82.3		72.2	
Balance as of end of year	$ 81.7	0.97	$ 69.9	0.97

(1) Percent of total ending managed receivables.

The allowance for loan losses represents an estimate of the amount of net losses inherent in our portfolio of managed receivables as of the applicable reporting date and anticipated to occur during the following 12 months. The 16.9% increase in the dollar amount of the allowance for loan losses as of February 28, 2015 compared with a year earlier largely reflected the growth in managed receivables. The allowance for loan losses as a percent of managed receivables remained consistent as of February 28, 2015, and February 28, 2014.

Loan Performance Information

	Years Ended February 28		
(In millions)	2015	2014	2013
Net credit losses on managed receivables	$ 70.5	$ 59.6	$ 42.2
Total average managed receivables	$ 7,859.9	$ 6,629.5	$ 5,385.5
Net credit losses as a percentage of total average managed receivables	0.90 %	0.90 %	0.78 %
Total ending managed receivables	$ 8,458.7	$ 7,184.4	$ 5,933.3
Past due accounts as a percentage of ending managed receivables	2.62 %	2.58 %	2.60 %
Average recovery rate	54.2 %	55.2 %	58.4 %

The average recovery rate represents the average percentage of the outstanding principal balance we receive when a vehicle is repossessed and liquidated, generally at our wholesale auctions. The annual recovery rate has ranged from a low of 42% to a high of 60%, and it is primarily affected by changes in the wholesale market pricing environment.

PLANNED FUTURE ACTIVITIES

We plan to open between 13 and 16 stores in each of the next three fiscal years. In fiscal 2016, we plan to open 14 new stores and relocate one store whose lease is expiring. In fiscal 2016, we also plan to remodel approximately 15 older stores. We currently estimate capital expenditures will total approximately $360 million in fiscal 2016.

Fiscal 2016 Planned Store Openings

Location	Television Market	Market Status	Planned Opening Date
Brooklyn Park, Minnesota (1)	Minneapolis/St Paul	New	Q1 Fiscal 2016
Sicklerville, New Jersey (2)	Philadelphia	Existing	Q1 Fiscal 2016
Gainesville, Florida	Gainesville	New	Q1 Fiscal 2016
Cranston, Rhode Island	Providence	Existing	Q2 Fiscal 2016
Parker, Colorado	Denver	Existing	Q2 Fiscal 2016
Loveland, Colorado	Denver	Existing	Q2 Fiscal 2016
Tallahassee, Florida	Tallahassee	New	Q2 Fiscal 2016
Richmond, Texas	Houston	Existing	Q2 Fiscal 2016
Gaithersburg, Maryland (3)	Washington/Baltimore	Existing	Q3 Fiscal 2016
Maplewood, Minnesota	Minneapolis/St Paul	Existing	Q3 Fiscal 2016
Norwood, Massachusetts	Boston	New	Q4 Fiscal 2016
Danvers, Massachusetts	Boston	Existing	Q4 Fiscal 2016
Bloomington, Illinois	Peoria/Bloomington	New	Q4 Fiscal 2016
Buford, Georgia	Atlanta	Existing	Q4 Fiscal 2016

Westborough, Massachusetts	Boston	Existing	Q4 Fiscal 2016

(1) Store opened in March 2015
(2) Store opened in April 2015
(3) Represents a store relocation being made in connection with the expiration of the lease on our Rockville, Maryland store.

Normal construction, permitting or other scheduling delays could shift the opening dates of any of these stores into a later period.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2(Y) for information on recent accounting pronouncements applicable to CarMax.

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FINANCIAL CONDITION

Liquidity and Capital Resources

Our primary ongoing cash requirements are to fund our existing operations, store expansion and improvement (including capital expenditures and inventory purchases) and CAF. Since fiscal 2013, we have also elected to use cash for our share repurchase program. As a result of these activities, over the last two fiscal years, we have reduced the cash and cash equivalents we hold and, during fiscal 2015, increased our borrowings. Our primary ongoing sources of liquidity include funds provided by operations, proceeds from securitization transactions or other funding arrangements, and borrowings under our revolving credit facility or through other sources.

Operating Activities. Net cash used in operating activities of $968.1 million includes increases in auto loan receivables of $1.37 billion in fiscal 2015. The majority of the increases in auto loan receivables are accompanied by increases in non-recourse notes payable, which are separately reflected as cash provided by financing activities. When considering cash provided by operating activities, management uses an adjusted measure of net cash from operating activities that offsets the changes in auto loan receivables with the corresponding changes in non-recourse notes payable. This is achieved by adding back the net cash provided from the issuance of non-recourse notes payable, which represents the increase in auto loan receivables that were securitized through the issuance of non-recourse notes payable during the period. The resulting financial measure, adjusted net cash from operating activities, is a non-GAAP financial measure. We believe adjusted net cash from operating activities is a meaningful metric for investors because it provides better visibility into the cash generated from operations. Including the increases in non-recourse notes payable, net cash provided by operating activities would have been as follows:

Reconciliation of Adjusted Net Cash from Operating Activities

	Years Ended February 28		
(In millions)	2015	2014	2013
Net cash used in operating activities	$ (968.1)	$ (613.2)	$ (778.4)
Add: Net issuance of non-recourse notes payable (1)	1,222.2	1,393.4	1,171.0
Adjusted net cash provided by operating activities	$ 254.1	$ 780.2	$ 392.6

(1) Calculated using the gross issuances less payments on non-recourse notes payable as disclosed on the consolidated statements of cash flows.

As of February 28, 2015, total inventory was $2.09 billion, representing an increase of $445.5 million, or 27.1%, compared with the balance as of the start of the fiscal year. The increase reflected a combination of factors, including an intentional build in inventories in the fall and winter of 2014 to better position us for seasonal sales opportunities, the 13 new stores opened during fiscal 2015, added inventories to support our comparable store sales growth, and below-target inventories at the start of the fiscal year.

As of February 28, 2014, total inventory was $1.64 billion, representing an increase of $123.6 million, or 8.1%, compared with the balance as of the start of the fiscal year. The increase reflected the 13 stores opened during fiscal 2014, as well as added inventories to support our comparable store sales growth. Inventory levels were below target levels as of the end of fiscal 2014, due to disruptions in reconditioning activities caused by unusually severe weather experienced during the fourth quarter of that fiscal year.

Investing Activities. Net cash used in investing activities totaled $360.7 million in fiscal 2015, $336.7 million in fiscal 2014 and $255.3 million in fiscal 2013. Investing activities primarily consist of capital expenditures, which totaled $309.8 million in fiscal 2015, $310.3 million in fiscal 2014 and $235.7 million in fiscal 2013. Capital expenditures primarily include real estate acquisitions for planned future store openings, store construction costs and store remodeling expenses. We maintain a multi-year pipeline of sites to support our store growth, so portions of capital spending in one year may relate to stores that we open in subsequent fiscal years. We opened 13 stores in fiscal 2015, 13 stores in fiscal 2014 and 10 stores in fiscal 2013.

As of February 28, 2015, we owned 87 and leased 57 of our 144 used car stores.

Financing Activities. Net cash provided by financing activities totaled $728.6 million in fiscal 2015, $1.13 billion in fiscal 2014 and $1.04 billion in fiscal 2013. Included in these amounts were net increases in total non-recourse notes payable of $1.22 billion, $1.39 billion and $1.17 billion, respectively, which were used to provide the financing for the majority of the increases of $1.37 billion, $1.32 billion and $992.2 million, respectively, in auto loan receivables (see Operating Activities). During fiscal 2015, we received proceeds of $300 million from a floating rate term loan entered into in November 2014. Net cash provided by financing activities was reduced by stock repurchases of $917.0 million in fiscal 2015, $307.2 million in fiscal 2014 and $203.4 million in fiscal 2013.

Total Debt and Cash and Cash Equivalents

	As of February 28	
(In thousands)	2015	2014
Borrowings under revolving credit facility	$ 10,785	$ 582
Other long-term debt	300,000	
Finance and capital lease obligations	327,838	334,384
Non-recourse notes payable	8,470,629	7,248,444
Total debt	$ 9,109,252	$ 7,583,410
Cash and cash equivalents	$ 27,606	$ 627,901

We have a $1.0 billion unsecured revolving credit facility, which expires in August 2016. The borrowing capacity under this credit facility was increased by $300 million during fiscal 2015. Borrowings under this facility are available for working capital and general corporate purposes, and the unused portion is fully available to us. See Note 11 for additional information on the revolving credit facility.

In November 2014, we entered into a $300 million floating rate term loan, due November 2017. See Note 11 for additional information on the term loan.

The credit facility and term loan agreements contain representations and warranties, conditions and covenants. If these requirements were not met, all amounts outstanding or otherwise owed could become due and payable immediately and other limitations could be placed on our ability to use any available borrowing capacity.

CAF auto loan receivables are primarily funded through securitization transactions. Our securitizations are structured to legally isolate the auto loan receivables, and we would not expect to be able to access the assets of our securitization vehicles, even in insolvency, receivership or conservatorship proceedings. Similarly, the investors in the non-recourse notes payable have no recourse to our assets beyond the securitized receivables, the amounts on deposit in reserve accounts and the restricted cash from collections on auto loan receivables. We do, however, continue to have the rights associated with the interest we retain in these securitization vehicles. Loans originated in the previously announced CAF loan origination test are being funded using existing working capital, and are not included in our current securitization program.

The timing of principal payments on the non-recourse notes payable is based on principal collections, net of losses, on the securitized auto loan receivables. The current portion of non-recourse notes payable represents principal payments that are due to be distributed in the following period.

As of February 28, 2015, $7.48 billion of non-recourse notes payable was outstanding related to term securitizations. These notes payable accrue interest predominantly at fixed rates and have scheduled maturities through September 2021, but they may mature earlier, depending on the repayment rate of the underlying auto loan receivables. During fiscal 2015, we completed four term securitizations, funding a total of $4.15 billion of auto loan receivables.

As of February 28, 2015, $986.0 million of non-recourse notes payable was outstanding related to our warehouse facilities. We have periodically increased our warehouse facility limit over time, as our store base, sales and CAF loan originations have grown. During fiscal 2015, we increased the combined limit of our warehouse facilities by an additional $500 million. As of February 28, 2015, the combined warehouse facility limit was $2.3 billion, and unused warehouse capacity totaled $1.31 billion. Of the combined warehouse facility limit, $800 million will expire in July 2015 and $1.5 billion will expire in February 2016. The return requirements of the warehouse facility investors could fluctuate significantly depending on market conditions. At renewal, the cost, structure and capacity of the facilities could change. These changes could have a significant effect on our funding costs. See Notes 2(F) and 11 for additional information on the warehouse facilities.

The securitization agreements related to the warehouse facilities include various representations and warranties, covenants and performance triggers. If these requirements are not met, we could be unable to continue to securitize receivables through the warehouse facilities. In addition, warehouse facility investors could charge us a higher rate of interest and could have us replaced as servicer. Further, we could be required to deposit collections on the securitized receivables with the warehouse facility agents on a daily basis and deliver executed lockbox agreements to the warehouse facility agents.

We expect that adjusted net cash provided by operations and other funding arrangements, sale-leaseback transactions and borrowings under existing, new or expanded credit facilities will be sufficient to fund CAF, capital expenditures, repurchase of stock and working capital for the foreseeable future. We anticipate that we will be able to enter into new, or renew or expand existing, funding arrangements to meet our future funding needs. However, based on conditions in the credit markets, the cost for these arrangements could be materially higher than historical levels and the timing and capacity of these transactions could be dictated by market availability rather than our requirements.

Beginning in fiscal 2013, our board of directors authorized the repurchase of our common stock. Purchases may be made in open market or privately negotiated transactions at management's discretion, and the timing and amount of repurchases are determined based on share price, market conditions, legal requirements and other factors. Shares repurchased are deemed authorized but unissued shares of common stock. As of February 28, 2015, the board had authorized a total of $3.8 billion of repurchases, including $3.0 billion authorized in fiscal 2015. As of February 28, 2015, $2.37 billion was available for repurchase under the authorizations, of which $369.3 million expires on December 31, 2015, and $2.0 billion expires on December 31, 2016. See Note 12 for more information on share repurchase activity.

Fair Value Measurements. We report money market securities, mutual fund investments and derivative instruments at fair value. See Note 6 for more information on fair value measurements.

Contractual Obligations (1)

	As of February 28, 2015					
(In millions)	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Other
Short-term debt (2)	$ 0.8	$ 0.8	$	$	$	$
Long-term debt (2)	310.0	10.0	300.0			
Finance and capital leases (3)	351.9	48.5	79.3	66.6	157.5	
Operating leases (3)	442.7	43.2	81.1	75.6	242.8	
Purchase obligations (4)	98.3	68.8	19.7	9.8		
Defined benefit retirement plans (5)	94.0	0.5				93.5
Unrecognized tax benefits (6)	19.6	0.7				18.9
Total	$ 1,317.3	$ 172.5	$ 480.1	$ 152.0	$ 400.3	$ 112.4

(1) This table excludes the non-recourse notes payable that relate to auto loan receivables funded through term securitizations and our warehouse facilities. The securitized receivables can only be used as collateral to settle obligations of these securitization vehicles. In addition, the investors in the non-recourse notes payable have no recourse to our assets beyond the securitized receivables, the amounts on deposit in reserve accounts and the

restricted cash from collections on auto loan receivables. See Note 2(F).

(2) Due to the uncertainty of forecasting expected variable interest rate payments, those amounts are not included in the table. See Note 11.

(3) Excludes taxes, insurance and other costs payable directly by us. These costs vary from year to year and are incurred in the ordinary course of business. See Note 15.

(4) Includes certain enforceable and legally binding obligations related to real estate purchases and third-party outsourcing services. Purchase obligations exclude agreements that are cancellable at any time without penalty. See Note 16(C).

(5) Represents the recognized funded status of our retirement plans, of which $93.5 million has no contractual payment schedule and we expect payments to occur beyond 12 months from February 28, 2015. See Note 10.

(6) Represents the net unrecognized tax benefits related to uncertain tax positions. The timing of payments associated with $18.9 million of these tax benefits could not be estimated as of February 28, 2015. See Note 9.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Auto Loan Receivables

As of February 28, 2015 and 2014, all loans in our portfolio of managed receivables were fixed-rate installment contracts. Financing for these receivables was achieved primarily through asset securitization programs that, in turn, issued both fixed- and floating-rate securities. Our derivative instruments are used to manage differences in the amount of our known or expected cash receipts and our known or expected cash payments principally related to the funding of our auto loan receivables. Disruptions in the credit markets could impact the effectiveness of our hedging strategies. Other receivables are financed with working capital. Generally, changes in interest rates associated with underlying swaps will not have a material impact on earnings; however, they could have a material impact on cash and cash flows.

Credit risk is the exposure to nonperformance of another party to an agreement. We mitigate credit risk by dealing with highly rated bank counterparties. The market and credit risks associated with derivative instruments are similar to those relating to other types of financial instruments. See Notes 5 and 6 for additional information on derivative instruments and hedging activities.

Composition of Auto Loan Receivables

	As of February 28	
(In millions)	2015	2014
Principal amount of receivables funded through:		
Term securitizations	$ 7,226.5	$ 6,145.5
Warehouse facilities (1)		