CARMAX INC
Form 10-K
April 22, 2016

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 29, 2016
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 incorporation or organization)	(I.R.S. Employer 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

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.

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 31, 2015, computed by reference to the closing price of the registrant's common stock on the New York Stock Exchange on that date, was $12,500,766,966.
On March 31, 2016, there were 193,829,168 outstanding shares of CarMax, Inc. common stock.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the CarMax, Inc. Notice of 2016 Annual Meeting of Shareholders and Proxy Statement are incorporated by reference in Part III of this Form 10-K.

CARMAX, INC.
FORM 10-K
FOR FISCAL YEAR ENDED FEBRUARY 29, 2016
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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, (“Securities Act”) 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.
- Our expected capital structure, stock repurchases and indebtedness.
- 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 619,936 used vehicles at retail during the fiscal year ended February 29, 2016. 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 29, 2016, we operated 158 used car stores in 78 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 financing to customers buying retail vehicles from CarMax.
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 55,000 vehicles as of February 29, 2016, available for viewing on our website, carmax.com, as well as our mobile app. 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 2016, approximately 30% of our vehicles sold were transferred at customer request.
In addition to retailing used vehicles, we sell new vehicles at two locations under franchise agreements.
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 29, 2016, we conducted wholesale auctions at 67 of our 158 stores. During fiscal 2016, we sold 394,437 wholesale vehicles through these on-site auctions 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 2016, more than 60% of the customers who purchased a retail used vehicle also purchased an ESP and approximately 25% purchased GAP.

CarMax Auto Finance. CAF provides financing solely to customers buying retail vehicles from 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 42.8% of our retail used vehicle unit sales in fiscal 2016.

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 29, 2016, CAF serviced approximately 709,000 customer accounts in its $9.59 billion portfolio of managed receivables.

Competition

CarMax Sales Operations. The U.S. used car marketplace is highly fragmented, and we face competition from franchised dealers, who sell both new and used vehicles; independent used car dealers; online and mobile sales platforms; and private parties. According to industry sources, as of December 31, 2015, there were approximately 18,000 franchised dealers in the U.S., and we believe there were approximately two times as many independent dealers. 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 40 million used cars sold in the U.S. in calendar 2015, of which approximately 22 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 2015 we sold approximately 5% of the age 0- to 10-year old vehicles sold in the markets in 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 app; 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., which 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 $1 trillion in outstanding receivables as of December 31, 2015. 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, 2015, industry sources ranked CAF 8th 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 used 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 offer.

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; these vehicles generally range in price from $12,000 to $35,000. The mix of our used vehicle inventory by make, model and age will vary from time to time, depending on consumer preferences, seasonality and market availability.

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 receive revenue for selling these plans on behalf of unrelated third parties, who are the primary obligors. 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 revenue 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, including but not limited to services related to manufacturer's warranties, 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 29, 2016, our third-party finance providers included Santander Consumer USA, Wells Fargo Dealer Services, Ally Financial Inc., Exeter Finance Corp, American Credit Acceptance, Capital One Auto Finance 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 or to whom no fee is paid 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 either received or paid 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. CAF also 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 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 260 million light vehicles in operation in the U.S. as of December 31, 2015. During calendar year 2015, over 17 million new cars and 40 million used cars were sold at retail, many of which were accompanied by trade-ins, and nearly 10 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 2016, approximately 88% of customers who purchased a vehicle from us had first visited us online.

Associates

On February 29, 2016, we had a total of 22,429 full- and part-time associates, including 16,557 hourly and salaried associates and 5,872 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 and privacy 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, as well as state and local motor vehicle finance, collection, repossession and installment finance laws. Our activities are subject to enforcement by the Federal Trade Commission and other federal and state regulators, and our financing activities are also subject to enforcement by the Consumer Financial Protection Bureau.

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 and online and mobile sales platforms, 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 to otherwise 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.
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 we fail to respond effectively to competitive pressures or to changes in the used vehicle marketplace, it 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.

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 internally generated cash flows have recently been sufficient to fund geographic expansion, there can be no assurance that we will continue to generate cash flows sufficient 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 receive revenue for selling EPP products on behalf of unrelated third-parties, who are the primary obligors. The third parties that provide ESPs are The Warranty Group, CNA National Warranty Corporation and Fidelity Warranty Services. 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. In addition, our strategic initiatives require management, employees and contractors to adapt and learn new skills and capabilities. 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 that 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 has been increasing, 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 "Business – 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 August 2015, the CFPB's supervisory authority over large nonbank auto finance companies, including CarMax's CAF segment, became effective. We expect that the CFPB will use this authority to conduct supervisory examinations of nonbank auto finance companies 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.

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.
Our business strategy includes opening stores in new and existing markets and implementing new initiatives to elevate the experience of our customers. 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 and implementation of new initiatives 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, or the inability to enhance our capabilities, 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 and applications (carmax.com, CarMax mobile apps, and carmaxauctions.com), consumer financing and customer information. The failure of these systems to perform as designed, the failure to maintain or update these systems as necessary, or the inability to enhance our information technology capabilities, 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 accelerated in frequency and scope in recent years. 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.

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., California, Texas 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 experience 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 generally conduct our retail vehicle operations in two 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 reconditioning activities 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 29, 2016, we operated 85 production stores and 73 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.

We have recently incorporated 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. They are generally located on 3 to 7 acres, although small format stores with production capabilities may be somewhat larger. As of February 29, 2016, we had 10 small format stores.

As of February 29, 2016, we operated 67 wholesale auctions, most of which were located at production stores. Stores at which auctions are conducted generally have additional space to store wholesale inventory.

USED CAR STORES AS OF FEBRUARY 29, 2016

State	Count	State	Count
Alabama	3	Nebraska	1
Arizona	3	Nevada	3
California	18	New Jersey	1
Colorado	5	New Mexico	1
Connecticut	2	New York	1
Delaware	1	North Carolina	9
Florida	15	Ohio	5
Georgia	9	Oklahoma	2
Illinois	8	Oregon	2
Indiana	2	Pennsylvania	3
Iowa	1	Rhode Island	1
Kansas	2	South Carolina	3
Kentucky	2	Tennessee	7
Louisiana	1	Texas	15
Maryland	6	Utah	1
Massachusetts	3	Virginia	10
Minnesota	2	Washington	1
Mississippi	2	Wisconsin	4
Missouri	3	Total	158

Of the 158 used car stores open as of February 29, 2016, 84 were located on owned sites and 74 were located on leased sites. The leases are classified as follows:

Land-only leases	18
Land and building leases	56
Total leased sites	74

As of February 29, 2016, we leased our CAF office building in Atlanta, Georgia. We own 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 29, 2016, we operated in 78 U.S. markets, which covered approximately 65% 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. In fiscal 2017, we plan to open 15 stores. In fiscal 2018, we plan to open between 13 and 16 stores.

For additional details on our future expansion plans, see “Fiscal 2017 Planned Store Openings,” included in Part II, Item 7 of this Form 10-K.

Item 3. Legal Proceedings.

Information in response to this Item is included in Note 16 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K and is incorporated herein by reference.

Item 4. Mine Safety Disclosures.

None.

EXECUTIVE OFFICERS OF THE COMPANY

The following table identifies our current executive officers. 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 2016.

Name	Age	Office
Thomas J. Folliard	51	Chief Executive Officer and Director
William D. Nash	46	President
Thomas W. Reedy	52	Executive Vice President and Chief Financial Officer
William C. Wood, Jr.	49	Executive Vice President and Chief Operating Officer
Edwin J. Hill	56	Executive Vice President, Strategy and Business Transformation
Jon G. Daniels	44	Senior Vice President, CarMax Auto Finance
James Lyski	53	Senior Vice President and Chief Marketing Officer
Eric M. Margolin	63	Senior Vice President, General Counsel and Corporate Secretary
Shamim Mohammad	47	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 served as president and chief executive officer and a director of CarMax from 2006 to February 2016 and is currently the chief executive officer and a director of CarMax.

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. In February 2016, he was promoted to president. 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, senior vice president, stores in 2011 and executive vice president, stores in 2012. In February 2016, he was promoted to executive vice president and chief operating officer. Prior to joining CarMax, Mr. Wood worked at Circuit City.

Mr. Hill joined CarMax in 1995 as director of service operations. In 2001, Mr. Hill was promoted to vice president of service operations, and, in 2010, he was promoted to senior vice president of service operations, a position he held until 2013, when he was promoted to senior vice president, strategy and business transformation. In 2016, Mr. Hill was promoted to executive vice president, strategy and business transformation. Prior to joining CarMax, Mr. Hill was vice president of advanced programs at Reveo, Inc. and vice president of operations at Hypres.

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. Lyski joined CarMax in August 2014 as senior vice president and chief marketing officer. 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.

Management Succession

As the culmination of a multi-year management succession plan, on February 1, 2016, Mr. Nash, formerly executive vice president, human resources and administrative services, was promoted to president of CarMax and Mr. Wood, formerly executive vice president, stores, was promoted to executive vice president and chief operating officer of CarMax.

Mr. Folliard will continue as CarMax’s chief executive officer until his retirement, expected to occur prior to the end of 2016, at which time it is anticipated that Mr. Nash will assume the role of CEO. The Board expects to appoint Mr. Folliard as non-executive chairman of the Board following his retirement.

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 29, 2016, there were 194,712,234 shares of CarMax common stock outstanding and we had approximately 4,000 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 2016				
High	$ 75.40	$ 73.76	$ 62.96	$ 60.00
Low	$ 61.98	$ 55.27	$ 53.46	$ 41.25
Fiscal 2015				
High	$ 49.68	$ 53.70	$ 57.28	$ 68.71
Low	$ 42.54	$ 43.80	$ 43.27	$ 55.86

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 2016, we sold no CarMax equity securities that were not registered under the Securities Act.

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 2016. The table does not include transactions related to employee equity awards or the exercises of employee stock options.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs [(1)]
December 1-31, 2015	1,865,080	$ 57.21	1,865,080	$ 1,447,148,751
January 1-31, 2016	—	$ —	—	$ 1,447,148,751
February 1-29, 2016	1,098,896	$ 44.71	1,098,896	$ 1,398,019,339
Total	2,963,976		2,963,976	

(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. On April 4, 2014, we announced that the board had authorized the repurchase of up to an additional $1 billion of our common stock, expiring on December 31, 2015. This authorization was exhausted during the quarter ended August 31, 2015. On October 22, 2014, we announced that the board had further authorized the repurchase of up to an additional $2 billion of our common stock, expiring 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, 2011, and the reinvestment of all dividends, as applicable.

	As of February 28 or 29					
	2011	2012	2013	2014	2015	2016
CarMax	$100.00	$86.77	$108.59	$136.92	$189.74	$130.79
S&P 500 Index	$100.00	$105.12	$119.27	$149.53	$172.72	$162.03
S&P 500 Retailing Index	$100.00	$114.80	$141.17	$189.65	$229.44	$246.06

Item 6. Selected Financial Data.

(Dollars and shares in millions, except per share or per unit data)	FY16	FY15	FY14	FY13	FY12
Income statement information					
Used vehicle sales	$12,439.4	$11,674.5	$10,306.3	$8,747.0	$7,826.9
Wholesale vehicle sales	2,188.3	2,049.1	1,823.4	1,759.6	1,721.6
Net sales and operating revenues	15,149.7	14,268.7	12,574.3	10,962.8	10,003.6
Gross profit	2,018.8	1,887.5	1,648.7	1,464.4	1,378.8
CarMax Auto Finance income	392.0	367.3	336.2	299.3	262.2
Selling, general and administrative expenses	1,351.9	1,257.7	1,155.2	1,031.0	940.8
Interest expense	36.4	24.5	30.8	32.4	33.7
Net earnings	623.4	597.4	492.6	434.3	413.8
Share and per share information					
Weighted average diluted shares outstanding	205.5	218.7	227.6	231.8	230.7
Diluted net earnings per share	$3.03	$2.73	$2.16	$1.87	$1.79
Balance sheet information					
Auto loan receivables, net	$9,536.9	$8,435.5	$7,147.8	$5,895.9	$4,959.8
Total assets	14,481.6	13,198.2	11,707.2	9,888.6	8,331.5
Total current liabilities	1,005.2	997.2	875.5	684.2	646.3
Total notes payable and other debt:					
Non-recourse notes payable	9,527.8	8,470.6	7,248.4	5,855.1	4,684.1
Other	1,130.1	638.6	334.9	354.0	368.7
Unit sales information					
Used vehicle units sold	619,936	582,282	526,929	447,728	408,080
Wholesale vehicle units sold	394,437	376,186	342,576	324,779	316,649
Per unit information					
Used vehicle gross profit	$2,159	$2,179	$2,171	$2,170	$2,177
Wholesale vehicle gross profit	984	970	916	949	953
SG&A per used vehicle unit (1)	2,181	2,160	2,192	2,303	2,305
Percent changes in					
Comparable store used vehicle unit sales	2.4 %	4.4 %	12.2 %	5.4 %	1.3 %
Total used vehicle unit sales	6.5	10.5	17.7	9.7	3.0
Wholesale vehicle unit sales	4.9	9.8	5.5	2.6	20.4
CarMax Auto Finance information					
CAF total interest margin (2)	6.1 %	6.5 %	6.9 %	7.4 %	7.3 %
Other information					
Used car stores	158	144	131	118	108
Associates	22,429	22,064	20,171	18,111	16,460

(1) Beginning fiscal 2016, SG&A per unit calculations are based on used units. All periods presented have been revised for this new presentation.

(2) Represents CAF total interest margin (which reflects the spread between interest and fees charged to consumers and our funding costs) as a percentage of total average managed receivables.

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 I, 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 financing to customers buying vehicles from CarMax.
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 ("ESPs") 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 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 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 29, 2016, we operated 158 used car stores in 78 markets, covering 50 mid-sized markets, 22 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 67 used car stores and we operated 2 new car franchises.
CarMax Auto Finance
In addition to third-party financing providers, we provide vehicle financing through CAF, which offers financing solely to customers buying retail vehicles from CarMax. 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 42.8% of our retail used vehicle unit sales in fiscal 2016. As of February 29, 2016, CAF serviced approximately 709,000 customer accounts in its $9.59 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 2016, net sales and operating revenues increased 6.2%, net earnings grew 4.4% and net earnings per share increased 11.0%. Fiscal 2015 results were impacted by a benefit of $12.9 million, net of tax, or $0.06 per share, related to the receipt of settlement proceeds in a class action lawsuit.
Our primary source of revenue and net income is the retail sale of used vehicles. During fiscal 2016, we sold 619,936 used cars, representing 82.1% of our net sales and operating revenues and 66.3% of our gross profit. Used vehicle unit sales grew 6.5%, including a 2.4% increase in comparable store used units and sales from newer stores not yet included in the comparable store base. Used vehicle gross profits increased 5.5% due to the increase in unit sales,

partially offset by a modest reduction in used vehicle gross profit per unit.

Wholesale sales are also a significant contributor to our revenues and net income. During fiscal 2016, we sold 394,437 wholesale vehicles, representing 14.4% of our net sales and operating revenues and 19.2% of our gross profit. Wholesale vehicle unit sales

grew 4.9%, primarily reflecting the growth in our store base. Wholesale vehicle gross profits increased 6.4% due to the combination of the increase in unit sales and a modest increase in wholesale vehicle gross profit per unit.
During fiscal 2016, other sales and revenues, which include revenue earned on the sale of EPP products, net third-party finance fees, and new car and service department sales, represented 3.4% of our net sales and operating revenues and 14.5% of our gross profit. Other sales and revenues declined 4.2%, primarily due to our disposal of two of the four new car franchises we owned at the start of fiscal 2016. Other gross profit increased 14.9%, reflecting the combination of improved EPP revenues and net third-party finance fees, as well as the benefit related to the change in timing of our recognition of reconditioning overhead costs. These costs, which previously had been expensed as incurred, are now allocated to the carrying cost of inventory.
Income from our CAF segment totaled $392.0 million in fiscal 2016, up 6.7% compared with fiscal 2015. 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 financing sources. During fiscal 2016, liquidity was primarily provided by $908.2 million of adjusted net cash provided by operating activities (a non-GAAP measure), which included $1.06 billion in net issuances of non-recourse notes payable, and by net borrowings of $404.6 million under our revolving credit facility. This liquidity was primarily used to fund the 16.3 million common shares repurchased under our share repurchase program, our store growth and the increase in CAF auto loan receivables.
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 operating activities 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 29, 2016, we had used car stores located in markets that represented approximately 65% of the U.S. population. During fiscal 2016, we opened 14 stores and relocated 1 store whose lease was set to expire. In fiscal 2017, we plan to open 15 stores. In fiscal 2018, we plan to open between 13 and 16 stores. For a detailed list of stores we plan to open in fiscal 2017, see the table included in "Planned Future Activities."
For additional information about risks and uncertainties facing our Company, see "Risk Factors," included in Part I, Item 1A of this Form 10-K.
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 revenue at the time of sale, net of a reserve for estimated contract cancellations. Periodically, we may receive additional revenue based upon the level of underwriting profits of the third parties who administer the products. These additional amounts 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 revenue 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 $11.0 million as of February 29, 2016. 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 loss carrybacks, tax planning strategies, 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 29, 2016, 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. federal 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 29 or 28				
(In millions)	2016	Change	2015	Change	2014
Used vehicle sales	$12,439.4	6.6 %	$11,674.5	13.3 %	$10,306.3
Wholesale vehicle sales	2,188.3	6.8 %	2,049.1	12.4 %	1,823.4
Other sales and revenues:					
Extended protection plan revenues	267.8	4.7 %	255.7	22.4 %	208.9
Third-party finance fees, net	(61.5)	3.5 %	(63.7)	23.0 %	(82.8)
Other [(1)]	315.7	(10.6)%	353.1	10.9 %	318.5
Total other sales and revenues	522.0	(4.2)%	545.1	22.6 %	444.6
Total net sales and operating revenues	$15,149.7	6.2 %	$14,268.7	13.5 %	$12,574.3

(1) In fiscal 2016, we reclassified New Vehicle Sales to Other Sales and Revenues and no longer separately present New Vehicle Sales. New Vehicle Sales represented approximately 1% of total sales in fiscal 2016. All periods presented have been revised for this new presentation.

UNIT SALES

	Years Ended February 29 or 28				
	2016	Change	2015	Change	2014
Used vehicles	619,936	6.5 %	582,282	10.5 %	526,929
Wholesale vehicles	394,437	4.9 %	376,186	9.8 %	342,576

AVERAGE SELLING PRICES

	Years Ended February 29 or 28				
	2016	Change	2015	Change	2014
Used vehicles	$19,917	0.1 %	$19,897	2.5 %	$19,408
Wholesale vehicles	$5,327	1.0 %	$5,273	2.2 %	$5,160

COMPARABLE STORE USED VEHICLE SALES CHANGES

	Years Ended February 29 or 28		
	2016	2015	2014
Used vehicle units	2.4%	4.4%	12.2%
Used vehicle dollars	2.5%	7.0%	12.4%

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. In September 2015, we relocated our Rockville, Maryland store and concurrently removed it 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 29 or 28		
	2016	2015	2014
Used vehicle units	6.5%	10.5%	17.7%
Used vehicle revenues	6.6%	13.3%	17.8%
Wholesale vehicle units	4.9%	9.8 %	5.5 %
Wholesale vehicle revenues	6.8%	12.4%	3.6 %

CHANGE IN USED CAR STORE BASE

	Years Ended February 29 or 28		
	2016	2015	2014
Used car stores, beginning of year	144	131	118
Store openings	14	13	13
Used car stores, end of year	158	144	131

During fiscal 2016, we opened 14 stores, including 7 stores in 5 new markets (2 stores each in Boston and Minneapolis, and 1 store each in Bloomington, Gainesville and Tallahassee) and 7 stores in 6 existing markets (2 stores in Denver and 1 store each in Atlanta, Houston, Philadelphia, Providence and St. Louis).

Used Vehicle Sales

Fiscal 2016 Versus Fiscal 2015. The 6.6% increase in used vehicle revenues in fiscal 2016 resulted from a 6.5% increase in unit sales. The increase in used unit sales included a 2.4% 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 sales performance was driven by improved conversion, partially offset by a decrease in store traffic. We believe that various market factors, including, but not limited to, the availability and relative valuations of certain used vehicle inventories, and new vehicle lease and price promotions, may have contributed to the decrease in store traffic. Our data indicates that in our markets, we increased our share of the 0- to 10-year old used vehicle market by approximately 1% in calendar 2015.

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.

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 2016 Versus Fiscal 2015. The 6.8% increase in wholesale vehicle revenues in fiscal 2016 resulted from a 4.9% increase in wholesale unit sales and a 1.0% increase in average wholesale vehicle selling price. The wholesale unit growth primarily reflected the growth in our store base.

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.

Other Sales and Revenues

Other sales and revenues include revenue from the sale of ESPs and GAP (collectively reported in EPP revenues, net of a reserve for estimated contract cancellations), net third-party finance fees and other revenues. Starting in fiscal 2016, new car sales are also included as a component of other revenues, along with service department sales. We refer to the third-party finance providers who generally pay us a fee or to whom no fee is paid as Tier 2 providers, and we refer to the providers to whom we pay a fee as Tier 3 providers. The fees we pay to the Tier 3 providers are reflected as an offset to finance fee revenues received from the Tier 2 providers. The mix of our retail vehicles financed by CAF, Tier 2 and Tier 3 providers may vary from quarter to quarter depending on several factors including the credit quality of applicants, changes in providers' credit decisioning and external market conditions. Changes in originations by one tier of credit providers may also affect the originations made by providers in other tiers.

Fiscal 2016 Versus Fiscal 2015. Other sales and revenues declined 4.2% in fiscal 2016, primarily due to our disposal of two of the four new car franchises we owned at the start of fiscal 2016. EPP revenue increased 4.7% largely reflecting the growth in our used unit sales. Net third-party finance fees improved by 3.5% primarily due to shifts in the mix among finance providers. Vehicles financed by the Tier 3 providers and vehicles included in the CAF Tier 3 loan origination program represented 14.4% of retail used unit sales in fiscal 2016 versus 15.8% in fiscal 2015.

Fiscal 2015 Versus Fiscal 2014. Other sales and revenues increased 22.6% primarily due to the 10.5% increase in used units sold. The 22.4% increase in EPP revenues was due to the increase in used unit sales as well as prior year's EPP cancellation reserve correction that reduced fiscal 2014 EPP revenues. Net third-party finance fees improved 23.0% primarily due to a mix shift among providers, including an increase in the percentage of our used unit sales financed by the Tier 2 providers and a reduction in the percentage financed by the Tier 3 providers. The percentage of retail used vehicles financed by Tier 3 providers, combined with those financed under the CAF Tier 3 loan origination program, was 15.8% in fiscal 2015 compared with 19.1% in fiscal 2014. Other revenue increases were primarily the result of increases in new vehicle revenues due to increases in unit sales.

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 of the correction recorded in fiscal 2014 that related to earlier fiscal years was $19.5 million, or $0.05 per share.

GROSS PROFIT

	Years Ended February 29 or 28				
(In millions)	2016	Change	2015	Change	2014
Used vehicle gross profit	$1,338.6	5.5 %	$1,268.5	10.9 %	$1,143.9
Wholesale vehicle gross profit	388.1	6.4 %	364.9	16.3 %	313.9
Other gross profit	292.1	14.9 %	254.1	33.1 %	190.9
Total	$2,018.8	7.0 %	$1,887.5	14.5 %	$1,648.7

GROSS PROFIT PER UNIT

	Years Ended February 29 or 28					
	2016		2015		2014	
	$ per unit (1)	% (2)	$ per unit (1)	% (2)	$ per unit (1)	% (2)
Used vehicle gross profit	$2,159	10.8	$2,179	10.9	$2,171	11.1
Wholesale vehicle gross profit	$984	17.7	$970	17.8	$916	17.2
Other gross profit	$471	55.9	$436	46.6	$362	42.9
Total gross profit	$3,256	13.3	$3,242	13.2	$3,129	13.1

(1) Calculated as category gross profit divided by its respective units sold, except the other and total categories, which are divided by total used 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 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 2016 Versus Fiscal 2015. The 5.5% increase in used vehicle gross profit in fiscal 2016 was primarily driven by the 6.5% growth in total used unit sales, partially offset by a modest decline in used gross profit per unit.

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.

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 2016 Versus Fiscal 2015. The 6.4% increase in wholesale vehicle gross profit in fiscal 2016 reflected the combination of the 4.9% increase in wholesale unit sales with a $14 increase in wholesale gross profit per unit.

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 $54 increase in wholesale gross profit per unit.

Other Gross Profit

Other gross profit includes profits related to EPP revenues, net third-party finance fees and other revenues, which are comprised of new car sales 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 revenues 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.

Fiscal 2016 Versus Fiscal 2015. Other gross profit rose 14.9% in fiscal 2016, primarily reflecting the improvement in EPP revenues and net third-party finance fees discussed above, as well as an increase in service department gross profits due to a change in the timing of our recognition of reconditioning overhead costs, which increased other gross profit in fiscal 2016 by $10.4 million. These costs, which previously had been expensed as incurred, are now allocated to the carrying cost of inventory.

Fiscal 2015 Versus Fiscal 2014. Other gross profit increased 33.1% primarily due to the EPP cancellation reserve correction that reduced fiscal 2014 gross profit. Excluding this correction, gross profit increased consistent with the changes in other sales and revenues discussed above.

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, changes in average vehicle selling prices impact CAF income, to the extent the average amount financed also changes.

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 $19,917 in fiscal 2016.

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Selling, General and Administrative ("SG&A") Expenses

COMPONENTS OF SG&A EXPENSES

	Years Ended February 29 or 28				
(In millions except per unit data)	2016	Change	2015	Change	2014
Compensation and benefits [1]	$737.6	1.0 %	$730.4	11.2 %	$656.7
Store occupancy costs	275.6	13.2 %	243.5	12.3 %	216.8
Advertising expense	140.6	14.5 %	122.8	9.4 %	112.2
Other overhead costs [2]	198.1	23.0 %	161.0	(5.0)%	169.5
Total SG&A expenses	$1,351.9	7.5 %	$1,257.7	8.9 %	$1,155.2
SG&A per used vehicle unit [3]	$2,181	$ 21	$2,160	$(32)	$2,192

(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.

(3) Calculated as total SG&A expenses divided by total used vehicle units.

Fiscal 2016 Versus Fiscal 2015. 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 litigation settlement, the fiscal 2016 increase reflected the 10% growth in our store base (representing the addition of 14 stores) and higher information technology and marketing costs. This was partially offset by a $23.3 million decrease in share-based compensation expense, which was influenced by decreases in the per share price of our common stock during fiscal 2016. The decrease in share-based compensation expense in fiscal 2016 reduced SG&A per used unit by $38.

Fiscal 2015 Versus Fiscal 2014. Excluding the litigation settlement received in fiscal 2015, SG&A expenses grew, reflecting 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 $18.68 increase in the per share price of our common stock during fiscal 2015. Excluding the settlement gain, SG&A per used unit in fiscal 2015 was similar to fiscal 2014.

Interest Expense

Fiscal 2016 Versus Fiscal 2015. Interest expense increased to $36.4 million in fiscal 2016 versus $24.5 million in fiscal 2015, primarily reflecting our higher average outstanding borrowings. During fiscal 2016, as a result of borrowings to fund our stock repurchase activity, we moved closer to our target range for adjusted debt to capital ratio. See "Liquidity and Capital Resources" for more information.

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 the construction 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.

Other Expense

Fiscal 2016 Versus Fiscal 2015. During fiscal 2016, we recorded a one-time charge of $8.3 million associated with a property that is no longer planned to be used.

Income Taxes

The effective income tax rate was 38.3% in fiscal 2016, 38.4% in fiscal 2015 and 38.2% in fiscal 2014.

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.

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.

SELECTED CAF FINANCIAL INFORMATION

	Years Ended February 29 or 28					
(In millions)	2016	%[1]	2015	%[1]	2014	%[1]
Interest margin:						