

CARMAX INC
Form 10-K
April 27, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

For the fiscal year ended February 28, 2007

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

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

54-1821055

(I.R.S. Employer Identification No.)

**12800 TUCKAHOE CREEK PARKWAY,
RICHMOND, VIRGINIA**

(Address of principal executive offices)

23238

(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

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Common Stock, par value \$0.50
Rights to Purchase Series A Preferred Stock,
par value \$20.00

New York Stock Exchange
New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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

Yes No

Indicate by check mark 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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, 2006, computed by reference to the closing price of the registrant's common stock on the New York Stock Exchange on that date, was \$4.0 billion.

On March 31, 2007, there were 216,045,438 outstanding shares of CarMax, Inc. common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the CarMax, Inc. Notice of 2007 Annual Meeting of Shareholders and Proxy Statement are incorporated by reference in Part III of this Form 10-K.

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FOR FISCAL YEAR ENDED FEBRUARY 28, 2007

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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 a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding:

- Our projected future sales growth, comparable store unit sales growth, earnings, and earnings per share.
 - Our expected future expenditures, cash needs, and financing sources.
 - The projected number, timing, and cost of new store openings.
 - Our sales and marketing plans.
- 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 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,” “plan,” “predict,” “should,” “will,” and 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 our 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 undertake no obligation to update any forward-looking statements made in this report.

Item 1. Business.

BUSINESS OVERVIEW

CarMax Background. CarMax, Inc. 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. Our home office is located at 12800 Tuckahoe Creek Parkway, Richmond, Va.

Under the ownership of Circuit City Stores, Inc. (“Circuit City”), we began operations in 1993 with the opening of our first CarMax superstore in Richmond, Va. In 1997, Circuit City completed the initial public offering of a tracking stock, Circuit City Stores, Inc.-CarMax Group common stock, which was intended to track separately the performance of the CarMax operations. On October 1, 2002, the CarMax business was separated from Circuit City through a tax-free transaction, becoming an independent, separately traded public company.

CarMax Business. We are the nation’s largest retailer of used cars, based on the 337,021 used vehicles we retailed during the fiscal year ended February 28, 2007. As of the end of fiscal 2007, we operated 77 used car superstores in 36 metropolitan markets. In addition, we sold 208,959 wholesale vehicles in fiscal 2007 through our on-site auctions.

We were the first used vehicle retailer to offer a large selection of high quality used vehicles at competitively low, fixed prices using a customer-friendly sales process in an attractive, modern sales facility. The CarMax consumer offer provides our customers the opportunity to shop for vehicles the same way they shop for items at other “big-box” retailers, and it is structured around four core equities: low, no-haggle prices; a broad selection; high quality; and customer-friendly service. Our strategy is to better serve the auto retailing market by addressing the major sources of customer dissatisfaction with traditional auto retailers and to maximize operating efficiencies through the use of standardized operating procedures and store formats enhanced by sophisticated, proprietary management information systems.

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We purchase, recondition, and sell used vehicles. All of the used vehicles we retail are thoroughly reconditioned to meet high mechanical, electrical, safety, and cosmetic standards, and each vehicle must pass a comprehensive inspection before being offered for sale. Approximately 85% of the used vehicles we retail are one to six years old with fewer than 60,000 miles. We also offer a selection of used vehicles at each superstore that are more than six years old or have more than 60,000 miles, but which meet similar quality standards.

We also sell new vehicles at seven locations under franchise agreements with four new car manufacturers. In fiscal 2007, new vehicles comprised 5% of our total retail vehicle unit sales. As planned, new car sales have become a smaller part of our business mix over the past several fiscal years as we have divested 14 new car franchises while aggressively growing our used car business. We may divest additional new car franchises in the future.

We provide our customers with a full range of related products and services, including the financing of vehicle purchases through CarMax Auto Finance ("CAF"), our own finance operation, and third-party lenders; the sale of extended service plans and accessories; the appraisal and purchase of vehicles directly from consumers; and vehicle repair service.

The CarMax consumer offer enables customers to evaluate separately each component of the sales process and to make informed decisions based on comprehensive information about the options, terms, and associated prices of each component. The customer can accept or decline any individual element of the offer without affecting the price or terms of any other component of the offer. Our "no-haggle" pricing and our commission structure, which is based on a fixed dollars-per-unit standard, allow our sales consultants to focus solely on meeting customer needs.

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 consumer's vehicle and make an offer to buy that vehicle regardless of whether the owner is purchasing a vehicle from us. We acquire the majority of our retail used vehicle inventory through this unique in-store appraisal process. We also acquire a significant portion of our used vehicle inventory through wholesale auctions and, to a lesser extent, directly from other sources, including wholesalers, dealers, and fleet owners. Those vehicles purchased through our in-store appraisal process that do not meet our retail standards are sold at on-site wholesale auctions.

Our inventory management and pricing system tracks each vehicle throughout the sales process. Using the information provided by this system, and applying sophisticated statistical modeling techniques, we are able to optimize our inventory mix, anticipate future inventory needs at each store, evaluate sales consultant and buyer performance, and refine our vehicle pricing strategy. Because of the pricing discipline afforded by the inventory management and pricing system, more than 99% of the entire used car inventory offered at retail is sold at retail.

Industry and Competition. With calendar year 2006 sales of approximately \$340 billion, used vehicles comprise nearly half of the U.S. auto retail market, the largest retail segment of the economy. In calendar 2006, there were an estimated 42.6 million used vehicles sold in the U.S. compared with approximately 16.6 million new vehicles. Our primary focus, late-model vehicles that are 1 to 6 years old, are estimated at approximately \$290 billion in annual sales and 20 million units per year.

The U.S. used car marketplace is highly fragmented and competitive and includes approximately 21,800 franchised new car dealers and 44,000 independent dealers, as well as millions of private individuals. Our primary competitors are the franchised new car dealers, who sell the majority of late-model used vehicles. Independent dealers predominantly sell older, higher mileage cars than we do. In both the used and new vehicle markets, we seek to distinguish ourselves from traditional dealerships through our consumer offer, sales approach, and other innovative operating strategies.

We believe that our principal competitive factors in used vehicle retailing are our ability to provide a high degree of customer satisfaction with the car-buying experience; our competitively low prices; our breadth of selection of the most popular makes and models available both on site and via our website, carmax.com; the quality of our vehicles; our proprietary information systems; and the location of our retail stores. Upon request by a customer, we will transfer virtually any used vehicle in our nationwide inventory to a local superstore. Transfers are free within a market; longer distance transfers include a charge to cover transportation costs. In fiscal 2007, more than 20% of our vehicles sold were transferred at customer request. Our Certified Quality Inspection assures that every vehicle we offer for sale meets stringent mechanical, electrical, and safety standards. We back every vehicle with a 5-day, money-back guarantee, and at least a 30-day limited warranty. Other competitive factors include our ability to offer

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or arrange customer financing on competitive terms and the comprehensiveness and cost of the extended service plans we offer. We believe that we are competitive in all of these areas and that we enjoy advantages over competitors that employ traditional high-pressure, negotiation-oriented sales techniques.

Our sales consultants play a significant role in ensuring a customer-friendly sales process. A sales consultant is paid a commission based on a fixed dollars-per-unit standard, thereby earning the same dollar sales commission regardless of the price or gross margin on the vehicle being sold. The sales consultant receives no commission on the finance process. This ensures that the sales consultant's primary objective is helping customers find the right vehicles for their needs at prices they can afford. In contrast, sales and finance personnel at traditional dealerships often receive higher commissions for negotiating higher prices and for steering customers toward vehicles with higher gross margins.

In the new vehicle market, we compete with other franchised dealers offering vehicles produced by the same or other manufacturers. Historically, the new vehicle market has been served primarily by dealerships employing traditional automotive selling methods. We believe our customer-friendly, low-pressure sales methods are points of competitive differentiation.

Marketing and Advertising. Our marketing strategies are focused on developing awareness of the advantages of shopping at our stores and on attracting customers who are already considering buying or selling a vehicle. We use market awareness and customer satisfaction surveys to help tailor our marketing efforts to the purchasing habits and preferences of customers in each market area. Our marketing strategies are implemented primarily through television and radio broadcasts, carmax.com, the Internet, and newspaper advertising. Television and radio broadcast advertisements are designed to build consumer awareness of the CarMax name, carmax.com, and key components of the CarMax offer. Newspaper advertisements promote our broad selection of vehicles and price competitiveness, targeting consumers with immediate purchase intentions. Broadcast, Internet, and newspaper advertisements are designed to drive customers to our stores and to carmax.com.

The media landscape is changing rapidly and we are changing our marketing programs in response. We are customizing our marketing program based on awareness levels in each market. In selected markets, we have expanded our use of Internet-based advertising while curtailing our use of newspaper advertising. We are building awareness and driving traffic to our stores and carmax.com by listing every retail vehicle on both AutoTrader.com and cars.com. Through their syndicated networks, AutoTrader.com and cars.com vehicle listings appear on sites that we believe are visited by a majority of late model used vehicle buyers who use the Internet in their shopping process. Our advertising on the Internet also includes banner and key-word advertisements on search engines, such as Google and Yahoo!

Our website, carmax.com, is a marketing tool for communicating the CarMax consumer offer in detail, a sophisticated search engine for finding the right vehicle, and a sales channel for customers who prefer to complete a part of the shopping and sales process online. The website offers complete inventory and pricing search capabilities. Information on the more than 25,000 cars available in our nationwide inventory is updated daily. Carmax.com includes detailed information, such as vehicle photos, prices, features, specifications, and store locations, as well as sorting and comparison features that allow consumers to easily compare vehicles. The site also includes features such as detailed vehicle reviews, payment calculators, and an option to estimate trade-in values via a link with Kelley Blue Book. Customers can contact sales consultants online via carmax.com, by telephone, or by fax. Customers can work with these sales consultants from the comfort of home, including applying for financing, and need to visit the store only to sign the paperwork and pick up their vehicle.

Suppliers for Used Vehicles. We acquire our used vehicle inventory directly from consumers through our unique in-store appraisal process and through other sources, including local and regional auctions, wholesalers, franchised and independent dealers, and fleet owners, such as leasing companies and rental companies. In calendar 2006,

approximately 22 million used vehicles were remarketed in the U.S., of which nearly 10 million were sold at wholesale auction.

The majority of our used vehicle inventory is acquired directly from consumers through our appraisal process. The most popular makes and models are more readily available directly from consumers than from other sources. This buying strategy also helps provide an inventory of makes and models that reflects the tastes of each market. In May 2006, we began testing a stand-alone car buying center in the Atlanta market. Our goal for the car buying center is

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to increase appraisal traffic and generate incremental vehicle purchases from individual consumers. We plan to expand this test by opening three additional car buying centers in fiscal 2008.

We have replaced the traditional “trade-in” transaction with a process in which a CarMax-trained buyer appraises the vehicle and provides the vehicle’s owner with a written, guaranteed offer that is good for 7 days. An appraisal is available to every customer free of charge, whether or not the individual purchases a vehicle from us. Based on their age, mileage, or condition, fewer than half of the vehicles acquired through this in-store appraisal process meet our high quality retail standards. Those vehicles that do not meet our retail standards are sold at our on-site wholesale auctions.

The inventory purchasing function is primarily performed at the store level and is the responsibility of the buyers, who handle both on-site appraisals and off-site auction purchases. Our buyers evaluate all used vehicles on the basis of their estimated wholesale value and reconditioning costs, and, for off-site purchases, cost of delivery to the store where they will be reconditioned. To decide which inventory to purchase at off-site auctions, our buyers, in collaboration with our home office staff, rely on the extensive inventory and sales trend data available through the CarMax information system. Our inventory and pricing models help the buyers tailor inventories to the buying preferences at each superstore, recommend pricing adjustments, and optimize inventory turnover to help maintain gross margin dollars per unit.

Based on consumer acceptance of the in-store appraisal process at existing CarMax stores, our experience and success to date 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 our sources of used vehicles will continue to be sufficient to meet current needs and to support planned expansion.

Suppliers for New Vehicles. Our new car operations are governed by the terms of the sales, service, and dealer agreements with DaimlerChrysler, General Motors, Nissan, and Toyota. Among other things, these agreements generally impose operating requirements and restrictions, including inventory levels, working capital, monthly financial reporting, signage, and cooperation with marketing strategies. A manufacturer may terminate a dealer agreement under certain circumstances, including a change in ownership without prior manufacturer approval, failure to maintain adequate customer satisfaction ratings, or a material breach of other provisions of the agreement. In addition to selling new vehicles using our low, no-haggle price strategy, the franchise and dealer agreements generally allow us to perform warranty work on these vehicles and sell related parts and services within a specified market area. Designation of specified market areas generally does not guarantee exclusivity within a specified territory.

Seasonality. Our business is seasonal. Most of our superstores experience their strongest traffic and sales in the spring and summer quarters. Sales are typically lowest in the fall quarter, which coincides with the new vehicle model-year-changeover period. In the fall, the new model year introductions and discounts on model year closeouts generally can cause rapid depreciation in used car pricing, particularly for late-model used cars. Customer traffic also tends to slow in the fall as the weather gets colder and as customers shift their spending priorities toward holiday-related expenditures. Seasonal patterns for car buying and selling may vary in different parts of the country and, as we expand geographically, these differences could have an effect on the overall seasonal pattern of our results.

Products and Services

Merchandising. We offer our customers a broad selection of makes and models of used vehicles, including both domestic and imported vehicles, at competitive prices. Our used car selection covers popular brands from manufacturers such as DaimlerChrysler, Ford, General Motors, Honda, Hyundai, Mazda, Mitsubishi, Nissan, Subaru, Toyota, and Volkswagen and luxury brands such as Acura, BMW, Infiniti, Lexus, and Mercedes. Our primary focus is vehicles that are 1 to 6 years old, have fewer than 60,000 miles, and generally range in price from \$11,500 to \$30,000.

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For the more cost-conscious consumer, we also offer used cars that are more than 6 years old or have 60,000 miles or more and that generally range in price from \$8,000 to \$22,000.

We have implemented an everyday low-price strategy under which we set no-haggle prices on both our used and new vehicles. We believe that our pricing is competitive with the best-negotiated prices in the market. Prices on all vehicles are clearly displayed on each vehicle's information sticker; on carmax.com, AutoTrader.com, and cars.com; and, where applicable, in our newspaper advertising. We extend our no-haggle philosophy to every component of

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the vehicle transaction, including vehicle appraisal offers, financing rates, accessories, extended service plan pricing, and vehicle documentation fees.

Reconditioning and Service. An integral part of our used car consumer offer is the reconditioning process. This process includes a comprehensive, Certified Quality Inspection of the engine and all major systems, including cooling, fuel, drivetrain, transmission, electronics, suspension, brakes, steering, air conditioning, and other equipment, as well as the interior and exterior of the vehicle. Based on this quality inspection, we determine the reconditioning necessary to bring the vehicle up to our high quality standards. Our service technicians complete vehicle inspections. We perform most routine mechanical and minor body repairs in-house; however, for some reconditioning services, we engage third parties specializing in those services. Over the past several years, we have performed an increasing percentage of reconditioning services in-house, and, based on the cost savings realized, we expect this trend to continue. Satellite superstores depend upon nearby mega or standard superstores for reconditioning, which increases efficiency and reduces overhead.

All CarMax used car locations provide vehicle repair service including repairs of vehicles covered by our extended service plans. We also provide factory-authorized service at all new car franchises. We have developed systems and procedures that are intended to ensure that our retail repair service is conducted in the same customer-friendly and efficient manner as our other operations.

We believe that the efficiency of our reconditioning and service operations is enhanced by our modern facilities, a technician mentoring process, and our information systems. The mentoring process and compensation programs are designed to increase the productivity of technicians, identify opportunities for cost reduction, and achieve high-quality repairs. Our information systems provide the ability to track repair history and enable trend analysis, which serves as guidance for our continuous improvement efforts.

Wholesale Auctions. Vehicles purchased through our in-store appraisal process that do not meet our retail standards are sold at on-site wholesale auctions. At February 28, 2007, wholesale auctions were conducted at 46 of our 77 superstores. Auctions are generally not held at satellite superstores. Auctions are held on a weekly, bi-weekly, or monthly basis. Auction frequency at a given superstore is determined by the number of vehicles to be auctioned, which depends on the number of stores and the market awareness of the company and our in-store appraisal offer in that market. The typical wholesale vehicle is approximately 10 years old and has more than 100,000 miles. Participation in our wholesale auctions is restricted to licensed automobile dealers, the majority of whom are independent dealers. To participate in a CarMax auction, dealers must register with our centralized auction support group, at which time we determine the purchase limit available to each dealer. We make conditional announcements 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. These policies result in an auction sales rate that is generally between 95% and 100%. Dealers pay a fee to the company based on the sales price of the vehicles they purchase.

Customer Credit. We offer our customers a wide range of financing alternatives, which we believe enhances the CarMax consumer offer. Before the effect of 3-day payoffs and vehicle returns, CAF financed more than 40% of our used vehicle unit sales in fiscal 2007. Customer credit applications are initially reviewed by CAF, and may also be reviewed by Bank of America. Customers who are not approved by either CAF or Bank of America are evaluated by our core, second-tier finance partners, including AmeriCredit Financial Services, Capital One Auto Finance, CitiFinancial Auto, and Wells Fargo Auto Finance. Customers who are not approved by any of these finance partners are evaluated by our third-tier lenders, which include Triad Financial and Drive Financial Services ("Drive"). Having a wide array of lenders not only expands the choices for our customers, but also increases discrete approvals. To this end, we have tested and will continue to test other third-party finance companies.

Customers applying for financing provide credit information that is electronically submitted by sales consultants through our proprietary information system. Responses from CAF and Bank of America are generally received in less than five minutes. The vehicle financings, or loans, are retail installment contracts secured by the vehicles financed. We have no recourse liability on retail installment contracts arranged with third-party finance companies. Customers are permitted to refinance or pay off their loans within three business days of a purchase without incurring any finance or related charges. Our arrangements with our primary and second-tier, third-party finance companies generally provide for payment of a fee to CarMax at the time of financing, provided the loan is not paid in full within 90 days. Drive purchases customer loans at a discount.

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Extended Service Plan Sales. At the time of the sale, we offer the customer an extended service plan. We sell these plans on behalf of unrelated third parties that are the primary obligors. Under the third-party service plan programs, we have no contractual liability to the customer. The extended service plans have terms of coverage from 12 to 72 months, depending on the vehicle age and make. We offer these extended service plans at low, fixed prices, which are based primarily on the repair record of the vehicle and the length of coverage selected. All extended service plans that we sell (other than manufacturers' warranties) have been designed to our specifications and are administered by the third parties through private-label arrangements under which we receive a commission from the administrator at the time the extended service plan is sold. In fiscal 2007, more than half of the customers purchasing a used vehicle from CarMax also purchased an extended service plan.

Our extended service plan customers have access to our vehicle repair service at each CarMax store and to the third-party administrators' nationwide network of approximately 14,000 independent service providers. We believe that the quality of the services provided by this network, as well as the broad scope of our extended service plans, helps promote customer satisfaction and loyalty, and thus increases the likelihood of repeat and referral business.

Systems

Our stores are supported by an advanced information system that improves the customer experience while providing tightly integrated automation of all operating functions. Using in-store information kiosks, customers can search each store's vehicle inventory and print a detailed listing for any vehicle, which includes the vehicle's features and specifications, and a map showing its specific location on the display lot. Our inventory management system tracks every vehicle through its life from purchase through reconditioning and test-drives to ultimate sale. Bar codes are placed on each vehicle and on each parking space on the display lot, and all vehicle bar codes are scanned daily as a loss prevention measure. Test drive information is captured on every vehicle using radio frequency identification devices, linking the specific vehicle and the sales consultant. We also capture data on vehicles we wholesale, which helps us track market pricing. An online finance application process and computer-assisted document preparation ensure rapid completion of the sales transaction. Behind the scenes, our proprietary store technology provides our management with real-time information about every aspect of store operations, such as inventory management, pricing, vehicle transfers, wholesale auctions, and sales consultant productivity.

Our inventory management and pricing system allows us to buy the mix of makes, models, age, mileage, and price points tailored to customer buying preferences at each superstore. This system also generates recommended retail price markdowns for specific vehicles based on complex algorithms that take into account factors including sales history, consumer interest, and seasonal patterns. We believe this systematic approach to vehicle pricing allows us to optimize inventory turns, which minimizes the depreciation risk inherent in used cars and helps us to achieve our targeted gross profit dollars per unit.

In addition to inventory management, our Electronic Repair Order system ("ERO") is used by the service department to sequence reconditioning procedures. ERO provides information that helps increase quality and reduce costs, which further enhances our customer service and profitability.

Through our centralized systems, we are able to immediately integrate new stores into our store network, allowing the new stores to rapidly achieve operating efficiency. We continue to enhance and refine our information systems, which we believe to be a core competitive advantage. The design of our information systems incorporates off-site backups, redundant processing, and other measures to reduce the risk of significant data loss in the event of an emergency or disaster.

Associates

On February 28, 2007, we had a total of 13,736 employees, including 10,394 hourly and salaried associates and 3,342 sales associates, who worked on a commission basis. Sales associates include both full-time and part-time employees. We employ additional associates during peak selling seasons. At February 28, 2007, our location general managers averaged more than 8 years of CarMax experience, in addition to prior retail management experience. Management believes that the company maintains good employee relations. No CarMax associate is subject to a collective bargaining agreement.

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