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

FORM 10-K

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

For the fiscal year ended February 28, 2019

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

Yes ☐ No ☒

The aggregate market value of the registrant's common stock held by non-affiliates as of August 31, 2018 , computed by reference to the closing price of the registrant's common stock on the New York Stock Exchange on that date, was $13,681,355,778 .

On March 31, 2019 , there were 166,187,221 outstanding shares of CarMax, Inc. common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the CarMax, Inc. Notice of 2019 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 28, 2019
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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, tax rates, earnings, CarMax Auto Finance income and earnings per share.
- Our business strategies.
- 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 the use of words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “outlook,” “plan,” “predict,” “should,” “will” 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. delivers an unrivaled customer experience by offering a broad selection of quality used vehicles and related products and services at competitive, no-haggle prices using a customer-friendly sales process in an attractive, modern sales facility, as well as through carmax.com and our mobile apps. We are in the process of rolling out our new omni-channel car buying experience, which provides customers a choice as to how they want to buy a car: from home, in-store or a combination of both. We have launched our omni-channel experience in the Atlanta market, and we anticipate having it available to the majority of our customers by the end of fiscal 2020. We are the nation's largest retailer of used cars, and we sold 748,961 used vehicles at retail during the fiscal year ended February 28, 2019 . We are also one of the nation's largest operators of wholesale vehicle auctions and one of the nation's largest providers of used vehicle financing.

CarMax was incorporated under the laws of the Commonwealth of Virginia in 1996. CarMax, Inc. is a holding company and our operations are conducted through our subsidiaries. Under the ownership of Circuit City Stores, Inc. ("Circuit City"), we began operations in 1993 with the opening of our first CarMax store in Richmond, Virginia. On October 1, 2002, the CarMax business was separated from Circuit City through a tax-free transaction, becoming an independent, publicly traded company. As of February 28, 2019 , we operated 203 used car stores in 100 U.S. television 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 at CarMax 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 other consumer products. As we roll out our new omni-channel experience, our customers will be empowered to buy a car on their own terms, either completely from home, in-store, or through an integrated combination of online and in-store experiences.

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 an inspection before being offered for sale. We stand behind every used vehicle we sell with a 7-day, money-back guarantee and at least a 30-day limited warranty. Our CarMax Quality Certified standards were developed internally by CarMax and are not affiliated with any third party or original equipment manufacturer program.

We maximize customer choice by offering a large selection of inventory on our lots and by making our nationwide inventory of approximately 70,000 retail vehicles as of February 28, 2019 , available for viewing on carmax.com, as well as our mobile apps. Upon request by a customer, we will transfer virtually any used vehicle in our inventory. This gives CarMax customers access to a much larger selection of vehicles than any traditional auto retailer. In fiscal 2019 , approximately 34% 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 age, mileage or condition, fewer than half of the vehicles acquired through our appraisal process meet our retail standards. Those vehicles that do not meet our retail standards are sold to licensed dealers through our wholesale auctions. Unlike many other auto auctions, we own all the vehicles that we sell in our auctions, which allows us to maintain a high auction sales rate. This high sales rate, combined with dealer-friendly practices, makes our auctions an attractive source of vehicles for licensed dealers. As of February 28, 2019 , we conducted wholesale auctions at 76 of our 203 stores. During fiscal 2019 , we sold 447,491 wholesale vehicles through these auctions with an average auction sales rate of approximately 95% .

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 2019 , approximately 61% of the customers who purchased a retail used vehicle also purchased an ESP and approximately 18% 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 qualifying customers a competitive financing option. CAF utilizes proprietary scoring models based upon the credit history and other credit data of the customer along with CAF's historical experience to predict the likelihood of customer repayment. Because CAF offers financing solely to CarMax customers, 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 43.2% of our retail used vehicle unit sales in fiscal 2019 .

CAF also services all auto loans it originates and is responsible for providing billing statements, collecting payments, maintaining contact with delinquent customers, and arranging for the repossession of vehicles securing defaulted loans. As of February 28, 2019 , CAF serviced approximately 966,000 customer accounts in its $12.51 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; online sellers; independent used car dealers; and private parties. According to industry sources, as of December 31, 2018 , there were approximately 18,000 franchised dealers in the U.S., who we consider to be our primary retail competitors, as they sell the majority of late-model used vehicles. Competition in our industry has evolved with the adoption of online platforms and marketing tools, all of which facilitate increased competition.

Based on industry data, there were approximately 42 million used cars sold in the U.S. in calendar 2018 , of which approximately 22 million were estimated to be age 0- to 10-year old vehicles. While we are the largest retailer of used vehicles in the U.S., in calendar 2018 , we estimate we sold approximately 4.4% of the age 0- to 10-year old vehicles sold in the current comparable store markets in which we operate, a decrease in these markets from approximately 4.5% in calendar 2017. Our market share is generally the highest in markets in which we have been established for many years. Entering new markets could have a dampening effect on our market share given that our initial market share in new markets is generally much lower than our average. On a nationwide basis, we estimate we sold approximately 3.3% of the age 0- to 10-year old vehicles sold in calendar year 2018 .

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 competitive, no-haggle prices and our customer-friendly sales process; our breadth of selection of the most popular makes and models available on site and via carmax.com and our mobile apps; the quality of our vehicles; our proprietary information systems; the transparency and availability of CAF and third-party financing; the locations of our retail stores; and our commitment to evolving our car-buying experience to meet customers' changing expectations. We believe our new omni-channel experience will reinforce our competitive advantages and anticipate having it available to the majority of our customers by the end of fiscal 2020. 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 and is a significant participant 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 more than $1 trillion in outstanding receivables as of December 31, 2018 . CAF's primary competitors are banks and credit unions that offer direct financing to customers purchasing used cars.

We believe that CAF's principal competitive advantage is its strategic position as the primary finance source for CarMax customers, 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 domestic, imported and luxury vehicles, at competitive prices. Our focus is vehicles that are 0 to 10 years old; these vehicles generally range in price from $11,000 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 retail vehicles provide coverage up to 60 months (subject to mileage limitations). GAP covers the customer for the term of their finance contract. The 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 profit-sharing revenues based upon the performance of the policies administered by the third parties.

Reconditioning and Service. An integral part of our used car consumer offer is the reconditioning process designed to make sure every car meets our internal standards before it can become a CarMax Quality Certified vehicle. This process includes an inspection of the engine and all major systems. Based on this inspection, we determine the reconditioning necessary to bring the vehicle up to our internal 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. CarMax does not have manufacturer authorization to complete recall-related repairs, and some vehicles CarMax sells may have unrepaired safety recalls. However, we review any unrepaired safety recall information, as reported by the National Highway Traffic Safety Administration, with our used vehicle customers before purchase.

All CarMax used car stores provide vehicle repair service, including repairs of vehicles covered by the ESPs we sell. Additionally, we have partnered with third-party providers of auto service and repair. Through these partnerships, we are able to provide our customers with access to a nationwide network of trusted, quality and fair-priced service and repair locations.

Customer Credit. We offer financing alternatives for retail customers across a wide range of the credit spectrum through CAF and arrangements with several financial institutions. Vehicles are financed using retail installment contracts secured by the vehicle. As of February 28, 2019 , our third-party finance providers included Ally Financial, American Credit Acceptance, Capital One Auto Finance, Chase Auto Finance, Exeter Finance Corp., Santander Consumer USA, Wells Fargo Dealer Services and Westlake Financial Services. We have no recourse liability for credit losses on retail installment contracts arranged and held by third-party providers, and we periodically test additional third-party providers.

Generally, credit applications submitted by customers to CarMax are initially reviewed by CAF using our proprietary underwriting standards. Based on that review, CAF makes financing offers designed to create a loan portfolio that meets our targeted risk profile in the aggregate. Applications that CAF declines or approves with conditions are generally evaluated by other third-party finance providers. Third-party providers generally either pay us or are paid a fixed, pre-negotiated fee per contract. We refer to the providers who generally 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. While in any individual period conditions may vary, over the past 10 fiscal years, 38% to 52% of our retail inventory has been acquired through our appraisal process annually. We also 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 volume 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 275 million light vehicles in operation in the U.S. as of December 31, 2018 . During calendar year 2018 , it is estimated that approximately 17 million new cars and 42 million used cars were sold at retail, many of which were accompanied by trade-ins, and more than 20 million wholesale vehicles were sold at auctions and through other channels.

Based on the large number of vehicles remarketed each year, consumer acceptance of our 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 federal income tax refunds.

Systems

Our business is supported by proprietary digital and mobile technologies that provide enhanced customer experience while enabling highly integrated automation of all operating functions, including credit processing and supply chain management. Buyers and sales consultants are equipped with mobile and centralized tools that allow them to access real-time information to better serve our customers. 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-five 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. These strategies are implemented through a broad range of media types. Our 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 conduct part of the shopping and sales process online. Our website and mobile apps also include a variety of other customer service features, including the ability to initiate vehicle transfers, schedule appointments and apply for financing pre-approval. Information on the thousands of cars available in our nationwide inventory is updated several times per day. Our survey data indicates that during fiscal 2019 , approximately 90% of customers who purchased a vehicle from us had first visited us online.

Associates

On February 28, 2019 , we had a total of 25,946 full- and part-time associates, including 19,705 hourly and salaried associates and 6,241 sales associates, who predominantly 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 ("CFPB").

The CFPB has supervisory authority over large nonbank auto finance companies, including CarMax's CAF segment. The CFPB can use this authority to conduct supervisory examinations to ensure compliance with various federal consumer protection laws.

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

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

AVAILABILITY OF REPORTS AND OTHER INFORMATION

The following items are available free of charge on our website 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, sell and finance 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, 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.

Retail Competition. Some of our competitors have announced and begun to execute plans for rapid expansion, including into markets with CarMax locations. 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 competitive, no-haggle prices and our commitment to buy a customer's vehicle even if they do not purchase one from us. If we fail to respond effectively to our retail competitors, it could have a material adverse effect on our business, sales and results of operations.

Online Sales and Facilitation. 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. Competitors using online focused business models, both for direct sales and consumer-to-consumer facilitation, could materially impact our business model. The 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 online 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, online appraisal tools are available 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 and data 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.

CAF Competition. 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 finance providers, which are generally less profitable to CarMax, or through other outside financing sources. Moreover, if CAF competitors are able to attract potential customers before they visit CarMax, whether through competitive finance offers or ease of customer experience, they may be directed to retail options other than CarMax. Accordingly, if CAF was unable to continue making competitive finance offers to our customers, or our finance competitors are able to successfully attract and redirect a disproportionate number of our potential customers, it could have a material adverse effect on our business, sales and results of operations.

Evolving Marketplace. The marketplace for used vehicles may be impacted by the significant, and likely accelerating, changes to the broader automotive industry. Technological changes, including the development of autonomous vehicles, new products and services, new business models and new methods of travel could reduce automotive retail demand or disrupt our current business model. If we fail to respond effectively to the evolving marketplace, 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 competitive, 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 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, demand from particular consumer categories or demand for particular vehicle types. It can also negatively impact availability of credit to finance vehicle purchases for all or certain categories of consumers. 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 failure to realize the benefits associated with our omni-channel initiatives could have a material adverse effect on our business, sales and results of operations.

We have announced the rollout of a new omni-channel experience with plans to make it available to the majority of our customers by February 2020. If we fail to complete this rollout, or if we are inefficient in managing this rollout, it could have a material adverse effect on our business, sales and results of operations. We must anticipate and meet our customers' expectations in an evolving retail industry. Our business, sales and results of operations may be negatively affected if we fail to provide a high quality and consistent customer experience, regardless of sales channel, if our technology systems do not meet customer expectations, or if we are unable to attract, retain and manage the personnel at various levels who have the necessary skills and experience we need to implement our omni-channel initiatives.

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 the expansion of our store base and sales growth in existing stores, could adversely affect sales, operating strategies and store growth. Although, in recent years, internally generated cash flows have been sufficient to fund our growth, there can be no assurance that we will continue to generate cash flows sufficient to fund our 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 growth.

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 the majority 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, senior unsecured notes 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.

Our success depends upon the continued contributions of our more than 25,000 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 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.

We may experience greater credit losses in CAF's portfolio of auto loan receivables than anticipated.

We are exposed to the risk that our customers who finance their purchases through CAF will be unable or unwilling to repay their loans according to their terms and that the vehicle collateral securing the payment of their loans may not be sufficient to ensure full repayment. Credit losses are inherent in CAF's business and could have a material adverse effect on our results of operations.

We make various assumptions and judgments about CAF's portfolio of auto loan receivables and provide an allowance for loan losses based on a number of factors. Although management will establish an allowance for loan losses it believes is appropriate, this allowance may not be adequate. For example, if economic conditions were to deteriorate unexpectedly, additional loan losses not incorporated in the existing allowance for loan losses may occur. Losses in excess of the existing allowance for loan losses could have a material adverse effect on our business, results of operations and financial condition.

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 parties 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 rely on third-party finance 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 finance 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 Assurant, Inc., CNA National Warranty Corporation and Fidelity Warranty Services, Inc. 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.

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 privacy laws and 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.

Changes in 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.

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 growth is dependent both on opening stores in new and existing markets and continued sales growth in our existing stores. 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 new store growth, it could have a material adverse effect on our business, sales and results of operations. Sales growth in our existing stores requires that we continue to effectively execute our business strategies and implement new and ongoing initiatives to elevate the experience of our customers. See the risk factor above titled " *Our failure to realize the benefits associated with our omni-channel initiatives could have a material adverse effect on our business, sales and results of operations* " for more discussion of this risk. 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 25,000 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 new store growth or the implementation of our customer experience initiatives, it could have a material adverse effect on our business, sales 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 various 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. Because we do not have manufacturer authorization to complete recall-related repairs, some vehicles we sell may have unrepaired safety recalls. Such recalls, and our lack of authorization to make recall-related repairs, 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. Consolidated Financial Statements and Supplementary Data.

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.

The market price of our common stock may be volatile and could expose us to securities class action litigation.

The price of our common stock may be subject to wide fluctuations based upon our operating results, general economic and market conditions, general trends and prospects for our industry, announcements by our competitors and other factors. In addition, the market price of our common stock may also be affected by whether we meet analysts' expectations. Failure to meet such expectations could have a material adverse effect on the price of our common stock. Following periods of volatility in the market price of a company's securities, securities class action litigation may be initiated. If similar litigation were instituted against us, it could result in substantial costs and a diversion of our attention and resources, which could have a material adverse effect on our business.

We rely on third-party vendors for key components of our business.

Many components of our business, including data management, key operational processes, and critical customer systems are provided by third parties. We carefully select our third-party vendors, but we do not control their actions. If our vendors fail to perform as we expect, our operations and reputation could suffer if the failure harms the vendors' ability to serve us and our customers. The use of third-party vendors represents an unavoidable inherent risk to our company that could have a material adverse effect on our business, sales and results of operations.

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, hail, 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 conduct our retail vehicle operations primarily 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. We also have production and non-production stores that operate in Metropolitan Statistical Areas ("MSAs") of less than 600,000 people, which we define as small markets. Some of these stores also have a smaller footprint compared with our stores in larger markets.

USED CAR STORES BY FORMAT AS OF FEBRUARY 28, 2019

	Production Stores	Non-production Stores
Store count	98	105
Store location size	generally 10 - 25 acres	generally 4 - 12 acres
Stores located in small MSAs	11	35

As of February 28, 2019 , we operated 76 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 BY STATE AS OF FEBRUARY 28, 2019

State	Count	State	Count
Alabama	5	Missouri	3
Arizona	3	Nebraska	1
California	25	Nevada	4
Colorado	6	New Hampshire	1
Connecticut	3	New Jersey	2
Delaware	1	New Mexico	2
Florida	19	New York	3
Georgia	10	North Carolina	11
Idaho	1	Ohio	5
Illinois	9	Oklahoma	3
Indiana	2	Oregon	2
Iowa	1	Pennsylvania	4
Kansas	2	Rhode Island	1
Kentucky	2	South Carolina	4
Louisiana	4	Tennessee	8
Maine	1	Texas	19
Maryland	7	Utah	1
Massachusetts	4	Virginia	10
Michigan	1	Washington	5
Minnesota	2	Wisconsin	4
Mississippi	2	Total	203

Of the 203 used car stores open as of February 28, 2019 , 126 were located on owned sites and 77 were located on leased sites. The leases are classified as follows:

Land-only leases	21
Land and building leases	56
Total leased sites	77

As of February 28, 2019 , we leased our CAF office buildings in Atlanta, Georgia and other ancillary properties to support our corporate and store operations. 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 28, 2019 , we operated in 100 U.S. television markets, which covered approximately 76% of the U.S. population. We believe that both further expansion of our store base and increases in market share in existing markets will provide a foundation for future sales and earnings growth. We currently plan to open 13 stores in fiscal 2020 and a similar number of stores in fiscal 2021 .

For additional details on our future expansion plans, see "PLANNED FUTURE ACTIVITIES," 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 17 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 2019 .

Name	Age	Office
William D. Nash………………………..….……...........	49	President, Chief Executive Officer and Director
Thomas W. Reedy………………………….…..…..............	55	Executive Vice President and Chief Financial Officer
Edwin J. Hill……………………....……………..............	59	Executive Vice President and Chief Operating Officer
James Lyski…………………..……...……………...........	56	Executive Vice President and Chief Marketing Officer
Eric M. Margolin……………………..……...………..........	66	Executive Vice President, General Counsel and Corporate Secretary
Diane L. Cafritz……………………....……………….......	48	Senior Vice President and Chief Human Resources Officer
Jon G. Daniels…………………..……...…………............	47	Senior Vice President, CarMax Auto Finance
Shamim Mohammad…………………..……..…...….....	50	Senior Vice President and Chief Information and Technology Officer
Darren C. Newberry..	49	Senior Vice President, Store Operations
C. Joseph Wilson..	46	Senior Vice President, Store Strategy and Logistics

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 2011, when he was named senior vice president, human resources and administrative services. In 2012, he was promoted to executive vice president, human resources and administrative services. In February 2016, he was promoted to president, and in September 2016, he was promoted to chief executive officer and named to the board of directors. 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 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., a technology retail company.

Mr. Hill joined CarMax in 1995 as director of service operations and, in 2000, was promoted to assistant vice president, service operations. In 2001, Mr. Hill was promoted to vice president, service operations, a position he held until 2010, when he was promoted to senior vice president of service operations. In 2013, Mr. Hill was promoted to senior vice president, strategy and transformation and in 2016, he was promoted to executive vice president, strategy and business transformation. Mr. Hill was promoted to executive vice president and chief operating officer in August 2018.

Mr. Lyski joined CarMax in August 2014 as senior vice president and chief marketing officer. In 2017, he was promoted to executive 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. In 2016, Mr. Margolin was promoted to executive 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, before that, vice president, general counsel and corporate secretary with Tire Kingdom, Inc.

Ms. Cafritz joined CarMax in 2003 as assistant general counsel. She was promoted to associate general counsel, director in 2005, deputy general counsel, assistant vice president in 2010, and vice president in 2014. During her tenure in the CarMax legal department, Ms. Cafritz managed commercial and consumer litigation, was responsible for operational regulatory guidance and led CarMax’s government affairs program. In 2017, Ms. Cafritz was named senior vice president and chief human resources officer. Prior to joining CarMax, Ms. Cafritz was a partner at McDermott, Will & Emery.

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. 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. In 2018, he was named senior vice president and chief information and technology 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.

Mr. Newberry joined CarMax in March 2004 as location general manager-in-training in the Los Angeles region and was promoted to location general manager of the Duarte, California store in 2006. He was subsequently promoted to positions of increasing responsibility, including regional vice president general manager in 2013 and vice president, regional sales in 2016. In 2017, he was promoted to senior vice president, store operations. Prior to joining CarMax, Mr. Newberry served as store manager and area manager for Bed, Bath and Beyond from 1994 to 2004.

Mr. Wilson joined CarMax in 1995 as a buyer-in-training at the Raleigh, North Carolina store, where he was subsequently promoted to buyer and then senior buyer. Mr. Wilson later served as purchasing manager at two CarMax stores in southern Florida before being promoted to regional vice president of merchandising. He was promoted to assistant vice president, auction services and merchandising development in 2008, vice president, auction services and merchandising development in 2013, and then vice president, merchandising operations in 2016. In 2017, Mr. Wilson was promoted to senior vice president, store strategy and logistics.

PART II

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

Our common stock is listed and traded on the New York Stock Exchange under the ticker symbol KMX. We are authorized to issue up to 350,000,000 shares of common stock and up to 20,000,000 shares of preferred stock. As of February 28, 2019 , there were 167,478,924 shares of CarMax common stock outstanding and we had approximately 3,100 shareholders of record. As of that date, there were no preferred shares outstanding.

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 2019 , we sold no CarMax equity securities that were not registered under the Securities Act.

Issuer Purchases of Equity Securities

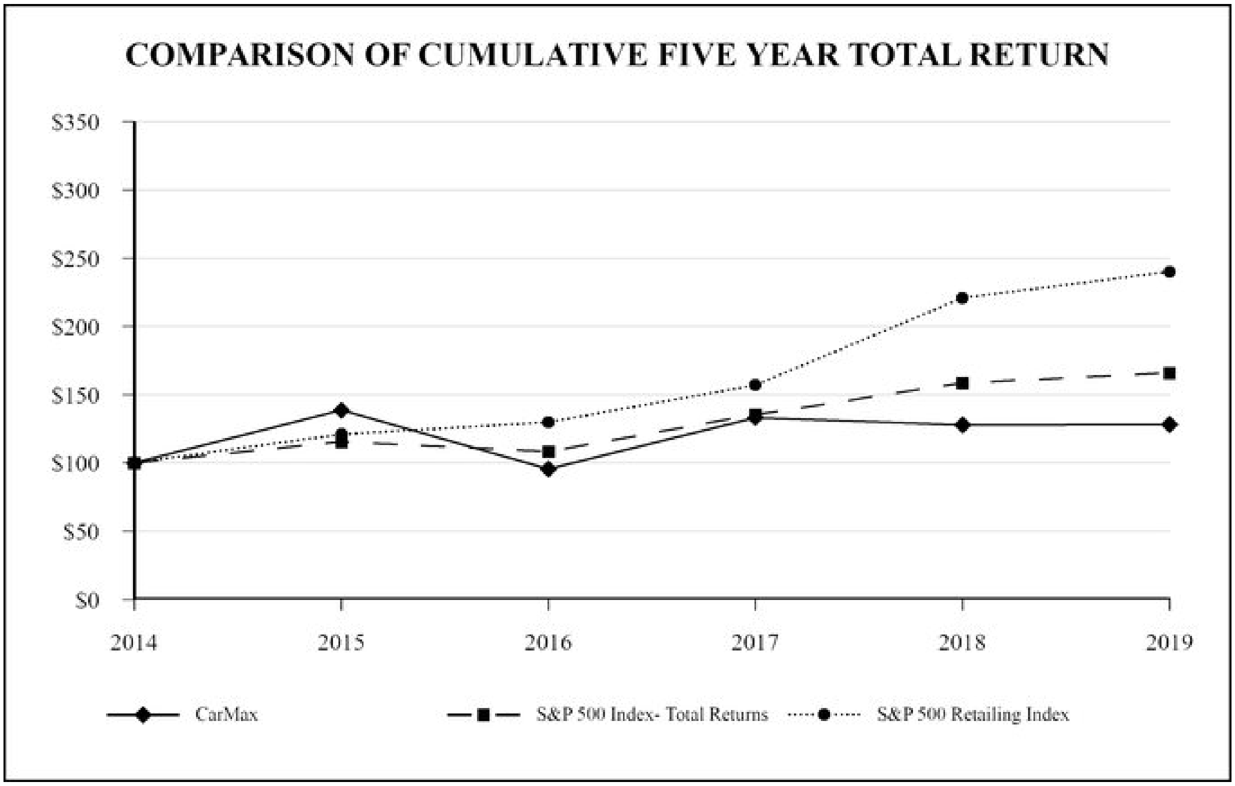
The following table provides information relating to the company's repurchase of common stock during the fourth quarter of fiscal 2019 . The table does not include transactions related to employee equity awards or the exercise of employee stock options.

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, 2018	1,705,900	$ 61.65	1,705,900	$ 2,278,832,923
January 1-31, 2019	1,449,892	$ 62.35	1,449,892	$ 2,188,426,451
February 1-28, 2019	1,221,855	$ 60.99	1,221,855	$ 2,113,907,071
Total	**4,377,647**		**4,377,647**	

[(1)] *On June 28, 2016, we announced that the board had authorized the repurchase of up to $750 million of our common stock, in addition to the then outstanding repurchase authorizations. At the same time, the board removed the expiration date of the outstanding repurchase authorizations. On October 23, 2018, the board further authorized the repurchase of an additional $2 billion of our common stock with no expiration date. 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, 2014, and the reinvestment of all dividends, as applicable.



	As of February 28 or 29					
	2014	2015	2016	2017	2018	2019
CarMax	$ 100.00	$ 138.57	$ 95.52	$ 133.26	$ 127.85	$ 128.23
S&P 500 Index	$ 100.00	$ 115.51	$ 108.36	$ 135.42	$ 158.57	$ 166.00
S&P 500 Retailing Index	$ 100.00	$ 120.98	$ 129.75	$ 157.02	$ 220.77	$ 239.87

Item 6. Selected Financial Data.

(Dollars and shares in millions, except per share or per unit data)	FY19	FY18	FY17	FY16	FY15
Income statement information					
Used vehicle sales	**$ 15,172.8**	$ 14,392.4	$ 13,270.7	$ 12,439.4	$ 11,674.5
Wholesale vehicle sales	**2,393.0**	2,181.2	2,082.5	2,188.3	2,049.1
Net sales and operating revenues	**18,173.1**	17,120.2	15,875.1	15,149.7	14,268.7
Gross profit	**2,480.6**	2,328.9	2,183.3	2,018.8	1,887.5
CarMax Auto Finance income	**438.7**	421.2	369.0	392.0	367.3
Selling, general and administrative expenses	**1,730.3**	1,617.1	1,488.5	1,351.9	1,257.7
Interest expense	**75.8**	70.7	56.4	36.4	24.5
Net earnings	**842.4**	664.1	627.0	623.4	597.4
Share and per share information					
Weighted average diluted shares outstanding	**175.9**	184.5	192.2	205.5	218.7
Diluted net earnings per share	**$ 4.79**	$ 3.60	$ 3.26	$ 3.03	$ 2.73
Balance sheet information					
Auto loan receivables, net	**$ 12,428.5**	$ 11,535.7	$ 10,596.1	$ 9,536.9	$ 8,435.5
Total assets	**18,717.9**	17,486.3	16,279.4	14,459.9	13,177.6
Total current liabilities	**1,311.5**	1,174.1	1,105.8	1,005.2	997.2
Total notes payable and other debt: [(1)]					
Non-recourse notes payable	**12,512.3**	11,622.4	10,720.9	9,507.2	8,451.1
Other	**1,692.3**	1,496.0	1,448.8	1,129.0	637.5
Unit sales information					
Used vehicle units sold	**748,961**	721,512	671,294	619,936	582,282
Wholesale vehicle units sold	**447,491**	408,509	391,686	394,437	376,186
Per unit information					
Used vehicle gross profit	**$ 2,175**	$ 2,173	$ 2,163	$ 2,159	$ 2,179
Wholesale vehicle gross profit	**963**	961	926	984	970
SG&A per used unit	**2,310**	2,241	2,217	2,181	2,160
Percent changes in					
Comparable store used vehicle unit sales	**0.3%**	2.0%	4.3%	2.4%	4.4%
Total used vehicle unit sales	**3.8**	7.5	8.3	6.5	10.5
Wholesale vehicle unit sales	**9.5**	4.3	(0.7)	4.9	9.8
CarMax Auto Finance information					
CAF total interest margin [(2)]	**5.6%**	5.7%	5.8%	6.1%	6.5%
Other information					
Used car stores	**203**	188	173	158	144
Associates	**25,946**	25,110	24,344	22,429	22,064

(1) *Amounts are reported net of unamortized debt issuance costs. See Note 11 to the Consolidated Financial Statements.*
(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 retail 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. We offer competitive, no-haggle prices; a broad selection of CarMax Quality Certified used vehicles; value-added EPP products; and superior customer service. Our website and related mobile apps are 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 shop online.

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 28, 2019 , we operated 203 used car stores in 100 U.S. television markets. As of that date, we also conducted wholesale auctions at 76 used car stores and we operated 2 new car franchises.

CarMax Auto Finance

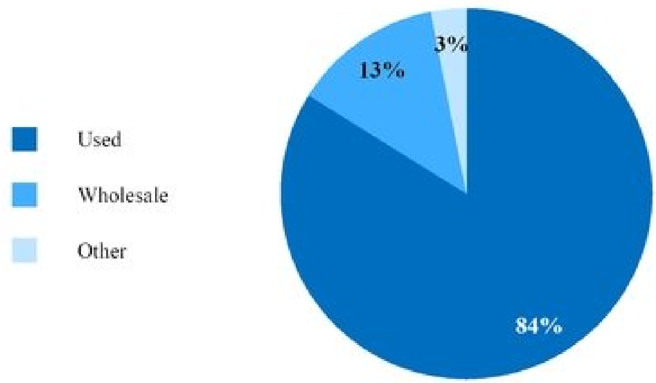
In addition to third-party finance providers, we provide vehicle financing through CAF, which offers financing solely to customers buying retail vehicles from CarMax. CAF allows us to manage our reliance on third-party finance providers and to leverage knowledge of our business to provide qualifying customers a competitive financing option. As a result, we believe CAF enables us to capture additional profits, cash flows and sales. 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 expenses. CAF income does not include any allocation of indirect costs. After the effect of 3-day payoffs and vehicle returns, CAF financed 43.2% of our retail used vehicle unit sales in fiscal 2019 . As of February 28, 2019 , CAF serviced approximately 966,000 customer accounts in its $12.51 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.

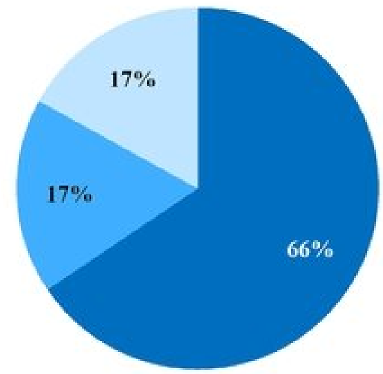
Revenues and Profitability

Our primary sources of revenue and gross profit from CarMax Sales Operations for fiscal 2019 are as follows:

Net Sales and Operating Revenues



Gross Profit



A high-level summary of our financial results from fiscal 2019 compared with fiscal 2018 is as follows:

(Dollars in millions except per share or per unit data)		2019	Change from 2018
Income statement information			
Net sales and operating revenues	$	18,173.1	6.1%
Gross profit	$	2,480.6	6.5%
CAF income	$	438.7	4.2%
Selling general and administrative expenses	$	1,730.3	7.0%
Net earnings	$	842.4	26.8%
Unit sales information			
Used unit sales		748,961	3.8%
Change in used unit sales in comparable stores		0.3%	N/A
Wholesale unit sales		447,491	9.5%
Per unit information			
Used gross profit per unit	$	2,175	0.1%
Wholesale gross profit per unit	$	963	0.2%
SG&A per used vehicle unit	$	2,310	3.1%
Per share information			
Net earnings per diluted share	$	4.79	33.1%

Changes in net earnings were impacted by the following:

- In connection with the Tax Cuts and Jobs Act of 2017 ("2017 Tax Act"), net earnings were reduced by $11.9 million in fiscal 2018. This net amount included a $32.7 million reduction for the revaluation of our net deferred tax asset, partially offset by a $20.8 million benefit that resulted from applying the new, lower blended federal statutory rate.

Refer to *"Results of Operations"* for further details on our revenues and profitability.

Liquidity

Our primary ongoing sources of liquidity include funds provided by operations, proceeds from non-recourse funding vehicles, and borrowings under our revolving credit facility or through other financing sources. During fiscal 2019 , net cash provided by operations totaled $163.0 million . This amount, combined with $890.8 million of net issuances of non-recourse notes payable, resulted in $1.05 billion of adjusted net cash provided by operating activities, a non-GAAP measure. This liquidity, together with borrowings under our revolving credit facility, was primarily used to fund the 13.6 million common shares repurchased under our share repurchase program, our store growth and strategic initiatives.

When considering cash provided by operating activities, management does not include increases in auto loan receivables that have been funded 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 provided by (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

Our long-term strategy is to complete the rollout of our retail concept, including our new omni-channel experience, and to increase our share of used vehicle unit sales in each of the markets in which we operate. Our new omni-channel experience empowers customers to buy a car on their own terms, either completely from home, in-store or through a seamlessly integrated combination of online and in-store experiences. We believe that, over the long term, used vehicle unit sales are the primary driver for earnings growth. 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.

In calendar 2018, we estimate we sold approximately 4.4% of the age 0- to 10-year old vehicles sold in the current comparable store markets in which we operate and approximately 3.3% of the age 0- to 10-year old vehicles sold on a nationwide basis. Our strategy to increase our market share includes continuing to focus on:

- Delivering a new customer-driven, omni-channel buying and selling experience that is a unique and powerful integration of our in-store and online capabilities.
- Opening stores in new markets and expanding our presence in existing markets.
- Hiring and developing an engaged and skilled workforce.
- Improving efficiency in our stores and our logistics operations to drive out waste.
- Leveraging data and advanced analytics to continuously improve our processes and systems.

In order to execute our long-term strategy, we are investing in various strategic initiatives to increase innovation, specifically with regards to customer facing and customer-enabling technologies. We continue to make improvements to our website and introduce new customer experiences, such as finance pre-approval, home delivery, online appraisal and express pick-up. We are also developing and implementing tools that help our associates be more efficient and effective. Additionally, we are centralizing customer support in our customer experience centers, which we expect to provide a more seamless integration between the online and in-store experience for our customers. Our use of data is a core component of these initiatives and continues to be a strategic asset for us as we leverage data to enhance the customer experience and increase operational efficiencies. In December 2018, we launched our new omni-channel car buying experience in the Atlanta market, which will help us learn how to best operationalize all our offerings and scale them across the entire organization. We anticipate having the new omni-channel experience available to the majority of our customers by the end of fiscal 2020.

While there are incremental costs and inefficiencies in the near term related to strategic initiatives, we have also identified potential cost savings through process changes and other improvements that can help offset these expenses over time. While in any individual period conditions may vary, over the long term, we would expect to begin leveraging our SG&A expenses when comparable store used unit sales growth is in the mid-single digit range. With increased spending expected for fiscal 2020, we believe our comparable store used unit sales growth will need to be in the range of 5% to 8% to leverage SG&A. We expect the rate of growth in spending on these initiatives to slow in fiscal 2021 and taper thereafter. We will continue to look for opportunities to reduce waste and re-prioritize spend.

As of February 28, 2019 , we had used car stores located in 100 television markets, which covered approximately 76% of the U.S. population. The format and operating models utilized in stores are continuously evaluated and may evolve over time based upon market and consumer expectations. We opened 15 stores in fiscal 2019 and plan to open 13 stores in fiscal 2020 and a similar number of stores in fiscal 2021 . For a detailed list of stores we plan to open in fiscal 2020 , see the table included in "PLANNED FUTURE ACTIVITIES."

While we execute our long-term strategy, there are trends and factors that could impact our strategic approach or our results in the short and medium term. A significant portion of our used vehicle inventory is sourced from local, regional and online wholesale auto auctions. Wholesale vehicle prices are influenced by a variety of factors, including the supply of vehicles available at auction relative to dealer demand.

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 1 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 funding program composed of three warehouse facilities ("warehouse facilities") that we use to fund auto loan receivables originated by CAF. We typically elect to fund these receivables through an asset-backed term funding transaction, such as a term securitization or alternative funding arrangement, at a later date. We recognize transfers of auto loan receivables into the warehouse facilities and asset-backed term funding transactions, including term securitizations (together, "non-recourse funding vehicles"), 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.

See Notes 1(F), 1(H) and 4 for additional information on securitizations and auto loan receivables.

Allowance for 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. Such losses are expected to become evident during the following 12 months. Because net loss performance can vary substantially over time, estimating net losses requires assumptions about matters that are uncertain.

The allowance for loan losses is estimated using a combination of analytical models and management judgment. These models are primarily based on the composition of the portfolio of managed receivables (including month of origination and actual prior performance of the receivables), historical loss trends and forecasted forward loss curves. For receivables that have less than 12 months of performance history, the estimate also takes into account the credit grades of the receivables and historical losses by credit grade to supplement actual loss data in estimating future performance. Once the receivables have 12 months of performance history, the estimate reflects actual loss experience of those receivables to date along with forward loss curves to predict future performance. The forward loss curves are constructed using historical performance data and show the average timing of losses over the course of a receivable's life.

Estimates from these models rely on historical performance information and may not fully reflect losses inherent in the present portfolio. Therefore, management also considers recent trends in delinquencies and defaults, recovery rates and the economic environment in assessing the models used in estimating the allowance for loan losses, and may adjust the allowance for loan losses to reflect factors that may not be captured in the models. In addition, management periodically considers whether the use of additional metrics would result in improved model performance and revises the models when appropriate.

Determining the appropriateness of the allowance for loan losses requires management to exercise judgment about matters that are inherently uncertain, including the timing and distribution of net losses that could materially affect the allowance for loan losses and, therefore, net earnings. To the extent that actual performance differs from our estimates, additional provision for credit losses may be required that would reduce net earnings. A 10% change in the estimated loss rates would have changed the allowance for loan losses by approximately $13.8 million as of February 28, 2019 .

See Notes 1(H) and 4 for additional information on the allowance for loan losses.

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 7-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 retail 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 retail installment contract. We recognize revenue, on a net basis, at the time of sale. We also record a reserve for estimated contract cancellations. 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 EPP 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 $10.3 million as of February 28, 2019 . See Note 8 for additional information on cancellation reserves.

We are contractually entitled to receive profit-sharing revenues based on the performance of the ESPs administered by third parties. These revenues are a form of variable consideration included in the ESP transaction price to the extent that it is probable that it will not result in a significant revenue reversal. An estimate of the amount to which we expect to be entitled, subject to various constraints, is recognized upon satisfying the performance obligation of selling the ESP. These constraints include factors that are outside of the company's influence or control and the length of time until settlement. We apply the expected value method, utilizing historical claims and cancellation data from CarMax customers, as well as other qualitative assumptions. This estimate is reassessed each reporting period with changes reflected in other sales and revenues on our consolidated statements of earnings and other assets on our consolidated balance sheets. Profit-sharing payments by the ESP provider begin when the underlying ESPs reach a specified level of claims history.

Customers applying for financing who are not approved or are 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 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.

See Note 2 for additional information on revenue recognition.

RESULTS OF OPERATIONS – CARMAX SALES OPERATIONS

NET SALES AND OPERATING REVENUES

(In millions)	2019	Change	2018	Change	2017
	Years Ended February 28				
Used vehicle sales	**$ 15,172.8**	**5.4%**	$ 14,392.4	8.5 %	$ 13,270.7
Wholesale vehicle sales	**2,393.0**	**9.7%**	2,181.2	4.7 %	2,082.5
Other sales and revenues:					
Extended protection plan revenues	**382.5**	**13.7%**	336.4	10.1 %	305.5
Third-party finance fees, net	**(43.4)**	**13.0%**	(49.9)	(29.9)%	(38.4)
Other	**268.2**	**3.1%**	260.2	2.1 %	254.9
Total other sales and revenues	**607.3**	**11.1%**	546.7	4.7 %	522.0
Total net sales and operating revenues	**$ 18,173.1**	**6.1%**	$ 17,120.2	7.8 %	$ 15,875.1

UNIT SALES

	2019	Change	2018	Change	2017
	Years Ended February 28				
Used vehicles	**748,961**	**3.8%**	721,512	7.5%	671,294
Wholesale vehicles	**447,491**	**9.5%**	408,509	4.3%	391,686

AVERAGE SELLING PRICES

	2019	Change	2018	Change	2017
	Years Ended February 28				
Used vehicles	**$ 20,077**	**1.6 %**	$ 19,757	0.9 %	$ 19,586
Wholesale vehicles	**$ 5,098**	**(0.1)%**	$ 5,102	(0.1)%	$ 5,106

COMPARABLE STORE USED VEHICLE SALES CHANGES

	2019	2018	2017
	Years Ended February 28		
Used vehicle units	**0.3%**	2.0%	4.3%
Used vehicle dollars	**1.9%**	2.9%	2.7%

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

VEHICLE SALES CHANGES

	2019	2018	2017
	Years Ended February 28		
Used vehicle units	**3.8%**	7.5%	8.3 %
Used vehicle revenues	**5.4%**	8.5%	6.7 %
Wholesale vehicle units	**9.5%**	4.3%	(0.7)%
Wholesale vehicle revenues	**9.7%**	4.7%	(4.8)%

USED VEHICLE FINANCING PENETRATION BY CHANNEL (BEFORE THE IMPACT OF 3-DAY PAYOFFS)

	Years Ended February 28 [(1)]		
	2019	**2018**	**2017**
CAF [(2)]	**48.4%**	48.4%	49.5%
Tier 2 [(3)]	**17.9**	16.6	17.8
Tier 3 [(4)]	**9.9**	10.5	9.8
Other [(5)]	**23.8**	24.5	22.9
Total	**100.0%**	100.0%	100.0%

(1) *Calculated as used vehicle units financed for respective channel as a percentage of total used units sold.*
(2) *Includes CAF's Tier 3 loan originations, which represent less than 1% of total used units sold.*
(3) *Third-party finance providers who generally pay us a fee or to whom no fee is paid.*
(4) *Third-party finance providers to whom we pay a fee.*
(5) *Represents customers arranging their own financing and customers that do not require financing.*

CHANGE IN USED CAR STORE BASE

	Years Ended February 28		
	2019	**2018**	**2017**
Used car stores, beginning of year	**188**	173	158
Store openings	**15**	15	15
Used car stores, end of year	**203**	188	173

During fiscal 2019 , we opened 15 stores, including 9 stores in new television markets (1 store each in Greenville, NC; Macon, GA; Wilmington, NC; Lafayette, LA; Corpus Christi, TX; Shreveport, LA; Buffalo, NY; Montgomery, AL; and New Orleans, LA) and 6 stores in existing television markets (1 store each in Dallas, TX; Miami, FL; Albuquerque, NM; Oklahoma City, OK; Orlando, FL; and Portland, OR).

Used Vehicle Sales

Fiscal 2019 Versus Fiscal 2018 . The 5.4% increase in used vehicle revenues in fiscal 2019 was primarily due to a 3.8% increase in unit sales. The increase in used unit sales included a 0.3% 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 lower store traffic. Website traffic grew 16%. We believe that the solid performance of our store teams and the impacts of our digital initiatives contributed to our continued improvements in conversion in both fiscal 2019 and fiscal 2018 . We believe our comparable store used unit sales growth was adversely affected by delays in February tax refunds relative to last year, the continuation of higher acquisition prices and a robust competitive environment. Our data indicates that our share of the age 0- to 10-year old used vehicles in our current comparable store markets fell from approximately 4.5% to 4.4% in calendar 2018.

The increase in average retail selling price reflected the net effects of higher vehicle acquisition costs and shifts in the mix of our sales by both vehicle age and class. We believe vehicle acquisition costs remained high throughout fiscal 2019 as the industry continued to experience a lower than normal depreciation environment.

Fiscal 2018 Versus Fiscal 2017 . The 8.5% increase in used vehicle revenues in fiscal 2018 was primarily due to a 7.5% increase in unit sales. The increase in used unit sales included a 2.0% 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 continued strong conversion, partially offset by lower store traffic.

Average retail selling price for fiscal 2018 remained relatively consistent with the prior year, reflecting the net effects of shifts in the mix of our sales by both vehicle age and class and lower vehicle acquisition costs. Decreases in vehicle acquisition costs in the first half of the year were largely offset by increases in the second half of the year. We believe lower seasonal depreciation was a significant driver of the increase in vehicle acquisition costs in the second half of the year. At the same time, industry new vehicle transaction prices benefited from aggressive new car incentives. We believe the resulting change in the relative affordability of new vehicles versus late-model vehicles was one of the factors contributing to our comparable store used unit sales performance.

Wholesale Vehicle Sales

Vehicles sold at our wholesale auctions are, on average, approximately 10 years old with more than 100,000 miles and are primarily comprised of vehicles purchased through our appraisal process that do not meet our retail standards. 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 being sold.

Fiscal 2019 Versus Fiscal 2018 . The 9.7% increase in wholesale vehicle revenues in fiscal 2019 resulted from a 9.5% increase in wholesale unit sales. The wholesale unit growth was primarily driven by growth in our store base, an increase in our appraisal buy rate and an increase in comparable store appraisal traffic. We believe the appraisal buy rate and comparable store appraisal traffic benefited from strong wholesale industry vehicle valuations, which allowed us to provide seasonally strong appraisal offers for both fiscal 2019 and fiscal 2018. Wholesale vehicle average selling price for fiscal 2019 remained consistent with the prior year.

Fiscal 2018 Versus Fiscal 2017 . The 4.7% increase in wholesale vehicle revenues in fiscal 2018 resulted from a 4.3% increase in wholesale unit sales. During fiscal 2018 , increases in wholesale unit volumes attributable to an increase in our appraisal buy rate and the growth in our store base were partially offset by a reduction in appraisal traffic. Wholesale vehicle average selling price for fiscal 2018 remained consistent with the prior year.

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, which are predominantly comprised of service department and new vehicle sales. 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, or customers that arrange their own financing, 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 2019 Versus Fiscal 2018 . Other sales and revenues increased 11.1% in fiscal 2019 . EPP revenues increased 13.7% compared with the prior year, reflecting cost decreases from plan providers, the increase in our retail unit volume and $8.4 million in ESP profit sharing revenues associated with our adoption of the new revenue recognition accounting standard in fiscal 2019. See Note 2 for additional information on revenue related to ESPs. The $6.5 million reduction in net third-party finance fees reflected shifts in our sales mix by finance channel, including an increase in our Tier 2 and a decrease in our Tier 3 sales.

Fiscal 2018 Versus Fiscal 2017 . Other sales and revenues increased 4.7% in fiscal 2018 . EPP revenues increased 10.1% compared with the prior year, largely reflecting the growth in our used unit sales. The $11.5 million reduction in net third-party finance fees reflected shifts in our sales mix by finance channel, including a decline in our Tier 2 and an increase in our Tier 3 sales.

G ROSS P ROFIT

	Years Ended February 28				
(In millions)	**2019**	**Change**	**2018**	**Change**	**2017**
Used vehicle gross profit	**$ 1,628.7**	**3.9%**	$ 1,567.6	8.0%	$ 1,451.7
Wholesale vehicle gross profit	**431.0**	**9.8%**	392.5	8.2%	362.6
Other gross profit	**420.9**	**14.1%**	368.8	—%	369.0
Total	**$ 2,480.6**	**6.5%**	$ 2,328.9	6.7%	$ 2,183.3

GROSS PROFIT PER UNIT

	Years Ended February 28								
	2019			2018			2017		
		$ per unit (1)	% (2)		$ per unit (1)	% (2)		$ per unit (1)	% (2)
Used vehicle gross profit	**$**	**2,175**	**10.7**	$	2,173	10.9	$	2,163	10.9
Wholesale vehicle gross profit	**$**	**963**	**18.0**	$	961	18.0	$	926	17.4
Other gross profit	**$**	**562**	**69.3**	$	511	67.5	$	550	70.7
Total gross profit	**$**	**3,312**	**13.6**	$	3,228	13.6	$	3,252	13.8

(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 adjust 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 the wholesale and retail vehicle pricing environments, vehicle reconditioning and logistics costs, and the percentage of vehicles sourced directly from consumers through our appraisal process. Vehicles purchased directly from consumers typically generate more gross profit per unit compared with vehicles purchased at auction or through other channels.

Fiscal 2019 Versus Fiscal 2018 . The 3.9% increase in used vehicle gross profit in fiscal 2019 was primarily driven by the 3.8% growth in total used unit sales. Our used vehicle gross profit per unit remained consistent with fiscal 2018 . We believe we can manage to a targeted gross profit per unit dollar range, subject to future changes to our business or pricing strategy.

Fiscal 2018 Versus Fiscal 2017 . The 8.0% increase in used vehicle gross profit in fiscal 2018 was primarily driven by the 7.5% growth in total used unit sales. Our used vehicle gross profit per unit remained consistent with fiscal 2017 .

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 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 2019 Versus Fiscal 2018 . The 9.8% increase in wholesale vehicle gross profit in fiscal 2019 was driven by the 9.5% increase in wholesale unit sales. Our wholesale gross profit per unit remained consistent with fiscal 2018 . We believe our wholesale gross profit per unit continued to benefit from a lower depreciation environment relative to historical trends.

Fiscal 2018 Versus Fiscal 2017 . The 8.2% increase in wholesale vehicle gross profit in fiscal 2018 was driven by the 4.3% increase in wholesale unit sales and a $35 , or 3.8% , increase in wholesale gross profit per unit. We believe our wholesale gross profit per unit benefited from a lower depreciation environment relative to historical trends.

Other Gross Profit

Other gross profit includes profits related to EPP revenues, net third-party finance fees and other revenues, which are predominantly comprised of service department operations, including used vehicle reconditioning, and new vehicle sales. 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 components of other gross profit can affect the composition and amount of other gross profit.

Fiscal 2019 Versus Fiscal 2018 . Other gross profit rose 14.1% in fiscal 2019 , primarily reflecting the improvement in EPP revenues and net third-party finance fees discussed above.

Fiscal 2018 Versus Fiscal 2017 . Other gross profit remained consistent in fiscal 2018 , as a $19.2 million decrease in service profits and the decrease in net third-party finance fees discussed above were largely offset by the noted increase in EPP revenues. Service profits were affected by the reduced leverage of service department costs resulting from our more modest comparable store used unit growth in the latter half of fiscal 2018 .

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, we believe higher vehicle acquisition prices, partially driven by lower seasonal vehicle depreciation, affected comparable store used unit sales growth, and therefore our results of operations, in fiscal 2018 and 2019. Additionally, changes in average vehicle selling prices impact CAF income, to the extent the average amount financed also changes.

SG&A Expenses

COMPONENTS OF SG&A EXPENSES AS A PERCENTAGE OF TOTAL SG&A EXPENSES

Fiscal Year 2019

COMPONENTS OF SG&A EXPENSES COMPARED WITH PRIOR PERIODS

	Years Ended February 28				
(In millions except per unit data)	**2019**	**Change**	**2018**	**Change**	**2017**
Compensation and benefits [(1)]	**$ 904.9**	**4.8%**	$ 863.2	7.4%	$ 803.9
Store occupancy costs	**359.1**	**6.5%**	337.3	12.1%	300.8
Advertising expense	**166.4**	**5.5%**	157.7	9.3%	144.2
Other overhead costs [(2)]	**299.9**	**15.8%**	258.9	8.1%	239.6
Total SG&A expenses	**$ 1,730.3**	**7.0%**	$ 1,617.1	8.6%	$ 1,488.5
SG&A per used vehicle unit [(3)]	**$ 2,310**	**$ 69**	$ 2,241	$ 24	$ 2,217

(1) *Excludes compensation and benefits related to reconditioning and vehicle repair service, which are included in cost of sales. See Note 12 for details of stock-based compensation expense by grant type.*

(2) *Includes IT expenses, insurance, preopening and relocation costs, non-CAF bad debt, travel, charitable contributions and other administrative expenses.*

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

Fiscal 2019 Versus Fiscal 2018 (Increase of $113.2 million or 7.0%). In addition to the 8% growth in our store base during fiscal 2019 (representing the addition of 15 stores) and higher variable costs associated with our comparable store unit growth, the net increase reflected the following:

- $12.2 million of the increase in compensation and benefits was due to an increase in share-based compensation expense, which increased SG&A per used unit by $13.
- $41.0 million increase in other overhead costs, which included continued spending to advance our technology platforms and support our core and omni-channel strategic initiatives.

Fiscal 2018 Versus Fiscal 2017 (Increase of $128.6 million or 8.6%). In addition to the 9% growth in our store base during fiscal 2018 (representing the addition of 15 stores) and higher variable costs associated with our comparable store unit growth, the net increase reflected the following:

- $18.0 million increase in compensation and benefits due to the corporate incentive pay accrual.

- $27.7 million decrease in compensation and benefits due to a decrease in share-based compensation expense, which reduced SG&A per used unit by $47. The decrease in share-based compensation expense reflected higher costs incurred in fiscal 2017 in connection with the retirement of our former chief executive officer, as well as a decrease in the expense related to cash-settled restricted stock units in fiscal 2018. The expense associated with these units was primarily driven by the change in the company's stock price during the fiscal year.
- $19.3 million increase in other overhead costs, which included increased spending related to our core and omni-channel strategic initiatives.

Interest Expense

Interest expense includes the interest related to short- and long-term debt and financing and capital lease obligations. It does not include interest on the non-recourse notes payable, which is reflected within CAF income.

Fiscal 2019 Versus Fiscal 2018 . Interest expense increased to $75.8 million in fiscal 2019 versus $70.7 million in fiscal 2018 . The increase primarily reflected higher interest rates on outstanding debt in fiscal 2019 .

Fiscal 2018 Versus Fiscal 2017 . Interest expense increased to $70.7 million in fiscal 2018 versus $56.4 million in fiscal 2017 . The increase reflected the combined effects of higher outstanding debt levels and interest rates in fiscal 2018 as well as a reduction in capitalized interest.

Income Taxes

The effective income tax rate was 24.3% in fiscal 2019 , 37.6% in fiscal 2018 and 37.7% in fiscal 2017 . The decrease in the effective income tax rate in fiscal 2019 is primarily due to the reduction in the federal statutory tax rate following the enactment of the 2017 Tax Act.

The fiscal 2018 effective income tax rate included the effect of an $11.9 million net increase in tax expense resulting from the enactment of the 2017 Tax Act, including:
- A $32.7 million increase in tax expense associated with the revaluation of our net deferred tax asset.
- A $20.8 million decrease in tax expense resulting from the new, lower blended federal statutory rate.

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. Total interest margin reflects the spread between interest and fees charged to consumers and our funding costs. Changes in the interest margin on new originations affect CAF income over time. Continued increases in interest rates, which affect CAF's funding costs, or other competitive pressures on consumer rates, could result in further compression in the interest margin on new originations. Changes in the allowance for loan losses as a percentage of ending managed receivables reflect the effect of the change in loss and delinquency experience on our outlook for net losses expected to occur over the next 12 months.

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. We strive to originate loans with an underlying risk profile that we believe will, in the aggregate and excluding CAF's Tier 3 originations, result in cumulative net losses in the 2% to 2.5% range over the life of the loans. Actual loss performance of the loans may fall outside of this range based on various factors, including intentional changes in the risk profile of originations, economic conditions and wholesale recovery rates. 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.

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.

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

(In millions)		Years Ended February 28 2019	% [(1)]		2018	% [(1)]		2017	% [(1)]
Interest margin:									
Interest and fee income	**$**	**972.9**	**8.0**	$	856.6	7.6	$	762.0	7.5
Interest expense		**(289.3)**	**(2.4)**		(215.0)	(1.9)		(171.4)	(1.7)
Total interest margin	**$**	**683.6**	**5.6**	$	641.6	5.7	$	590.6	5.8
Provision for loan losses	**$**	**(153.8)**	**(1.3)**	$	(137.6)	(1.2)	$	(150.6)	(1.5)
CarMax Auto Finance income	**$**	**438.7**	**3.6**	$	421.2	3.8	$	369.0	3.6

(1) *Percent of total average managed receivables.*

CAF ORIGINATION INFORMATION (AFTER THE IMPACT OF 3-DAY PAYOFFS)

		Years Ended February 28 2019		2018		2017
Net loans originated *(in millions)*	**$**	**6,330.1**	$	5,962.2	$	5,643.3
Vehicle units financed		**323,864**		310,739		297,043
Net penetration rate [(1)]		**43.2%**		43.1%		44.2%
Weighted average contract rate		**8.5%**		7.8%		7.4%
Weighted average credit score [(2)]		**706**		707		706
Weighted average loan-to-value (LTV) [(3)]		**94.8%**		95.0%		95.0%
Weighted average term *(in months)*		**66.0**		65.8		65.8

(1) *Vehicle units financed as a percentage of total used units sold.*

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

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

LOAN PERFORMANCE INFORMATION

(In millions)		As of and for the Years Ended February 28 2019		2018		2017
Total ending managed receivables	**$**	**12,510.2**	$	11,618.9	$	10,681.3
Total average managed receivables	**$**	**12,150.2**	$	11,210.8	$	10,158.3
Allowance for loan losses [(1)]	**$**	**138.2**	$	128.6	$	123.6
Allowance for loan losses as a percentage of ending managed receivables		**1.10%**		1.11%		1.16%
Net credit losses on managed receivables	**$**	**144.2**	$	132.6	$	121.9
Net credit losses as a percentage of total average managed receivables		**1.19%**		1.18%		1.20%
Past due accounts as a percentage of ending managed receivables		**3.61%**		3.38%		3.10%
Average recovery rate [(2)]		**47.7%**		46.1%		47.4%

(1) *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.*

(2) *The average recovery rate represents the average percentage of the outstanding principal balance we receive when a vehicle is repossessed and liquidated, generally at our wholesale auctions. While in any individual period conditions may vary, over the past 10 fiscal years, the annual recovery rate has ranged from a low of 46% to a high of 60%, and it is primarily affected by changes in the wholesale market pricing environment.*

Fiscal 2019 Versus Fiscal 2018 .

- CAF Income (Increase of $17.5 million or 4.2%)
  - The increase in CAF income reflects an increase in the average managed receivables, partially offset by a lower total interest margin percentage and an increase in the provision for loan losses.
  - Average managed receivables grew 8.4% to $12.15 billion in fiscal 2019 driven primarily by the rise in CAF loan originations in recent years.
  - The growth in net loan originations in fiscal 2019 resulted from our used vehicle sales growth and an increase in average amount financed.

- Provision for Loan Losses (Increased to $153.8 million from $137.6 million)
  - The increase in the provision for loan losses was primarily due to the growth in average managed receivables. As a result, the allowance for loan losses as a percentage of ending managed receivables was 1.10% as of February 28, 2019 compared with 1.11% as of February 28, 2018 .
  - Although past due accounts as a percentage of ending managed receivables has increased, annualized net credit losses as a percentage of total average managed receivables has remained relatively flat.

- Total Interest Margin (Decreased to 5.6% of averaged managed receivables from 5.7%)
  - The decline in total interest margin percentage was the result of a gradual compression of the spread between rates charged to consumers and our funding costs in recent years.

Fiscal 2018 Versus Fiscal 2017 .

- CAF Income (Increase of $52.2 million or 14.1%)
  - The increase in CAF income reflects an increase in the average managed receivables and a decline in the provision for loan losses, partially offset by a lower total interest margin percentage.
  - Average managed receivables grew 10.4% to $11.21 billion in fiscal 2018 driven primarily by the rise in CAF loan originations in recent years.
  - The growth in net loan originations in fiscal 2018 resulted from our used vehicle sales growth and an increase in average amount financed, partially offset by a decrease in CAF's penetration rate.

- Provision for Loan Losses (Decreased to $137.6 million from $150.6 million)
  - The provision during fiscal 2017 was affected by rising loss experience, while losses were generally consistent with expectations in fiscal 2018 . As a result, the allowance for loan losses as a percentage of ending managed receivables was 1.11% as of February 28, 2018 compared with 1.16% as of February 28, 2017 .

- Total Interest Margin (Decreased to 5.7% of averaged managed receivables from 5.8%)
  - The decline in total interest margin percentage was the result of gradual compression of the spread between rates charged to customers and our funding costs in recent years.

Tier 3 Loan Originations. CAF also originates a small portion of auto loans to customers who typically would be financed by our Tier 3 finance providers, in order to better understand the performance of these loans, mitigate risk and add incremental profits. CAF currently targets originating approximately 5% of the total Tier 3 loan volume; however, this rate may vary over time based on market conditions. A total of $162.4 million and $147.5 million in CAF Tier 3 receivables were outstanding as of February 28, 2019 and 2018 , respectively. These loans have higher loss and delinquency rates than the remainder of the CAF portfolio, as well as higher contract rates. As of February 28, 2019 and 2018 , approximately 10% of the total allowance for loan losses related to the outstanding CAF Tier 3 loan balances.

PLANNED FUTURE ACTIVITIES

We currently plan to open 13 stores in fiscal 2020 and a similar number of stores in fiscal 2021 . In fiscal 2020 , we will be entering six new television markets and expanding our presence in seven existing television markets. Of the 13 stores we plan to open in fiscal 2020 , 6 are in Metropolitan Statistical Areas ("MSAs") having populations of 600,000 or less, which we define as small markets. We currently estimate capital expenditures will total approximately $350 million in fiscal 2020 .

FISCAL 2020 PLANNED STORE OPENINGS

Location	Television Market	Metropolitan Statistical Area	Planned Opening Date
Memphis, Tennessee (1)	Memphis	Memphis	Q1 Fiscal 2020
Killeen, Texas	Waco/Temple (2)	Killeen/Temple	Q1 Fiscal 2020
Pharr, Texas	Harlingen/Brownsville/McAllen (2)	McAllen/Edinburg/Mission	Q1 Fiscal 2020
Pleasant Hill, California	San Francisco/Oakland/San Jose	San Francisco/Oakland	Q2 Fiscal 2020
Lubbock, Texas	Lubbock (2)	Lubbock	Q2 Fiscal 2020
Scottsdale, Arizona	Phoenix	Phoenix/Mesa/Scottsdale	Q2 Fiscal 2020
Denton, Texas	Dallas/Ft. Worth	Dallas/Fort Worth/Arlington	Q3 Fiscal 2020
Palm Desert, California	Palm Springs (2)	Riverside/San Bernardino/Ontario	Q3 Fiscal 2020
Gulfport, Mississippi	Biloxi/Gulfport (2)	Gulfport/Biloxi/Pascagoula	Q3 Fiscal 2020
Bogart, Georgia	Atlanta	Athens/Clarke County	Q3 Fiscal 2020
Fort Wayne, Indiana	Fort Wayne (2)	Fort Wayne	Q4 Fiscal 2020
Salem, Oregon	Portland	Salem	Q4 Fiscal 2020
Murfreesboro, Tennessee	Nashville	Nashville/Davidson/Murfreesboro	Q4 Fiscal 2020

(1) *Store opened in March 2019.*
(2) *Represents new television market as of planned store opening date.*

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

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1(X) to the consolidated financial statements for information on recent accounting pronouncements applicable to CarMax.

FINANCIAL CONDITION

Liquidity and Capital Resources

Our primary ongoing cash requirements are to fund our existing operations, store expansion and improvement and CAF. Since fiscal 2013, we have also elected to use cash for our share repurchase program. Our primary ongoing sources of liquidity include funds provided by operations, proceeds from non-recourse funding vehicles and borrowings under our revolving credit facility or through other financing sources.

We currently target an adjusted debt to capital ratio in a range of 35% to 45%. In calculating this ratio, we utilize total debt, excluding non-recourse notes payable, a multiple of 8 times rent expense and total shareholders' equity. We expect to use our revolving credit facility and other financing sources, together with stock repurchases, to maintain this targeted ratio; however, in any period, we may be outside this range due to seasonal, market, strategic or other factors.

Operating Activities . During fiscal 2019 , net cash provided by operating activities totaled $163.0 million compared with net cash used in operating activities of $80.6 million in fiscal 2018 and $455.3 million in fiscal 2017 , which included increases in auto loan receivables of $1.05 billion in fiscal 2019 , $1.08 billion in fiscal 2018 and $1.21 billion in fiscal 2017 . The majority of the increases in auto loan receivables are accompanied by increases in non-recourse notes payable, which are separately reflected as cash provided by financing activities.

As of February 28, 2019 , total inventory was $2.52 billion , representing an increase of $128.8 million , or 5.4% , compared with the balance as of the start of the fiscal year. The increase primarily reflected the addition of inventory to support new store openings in fiscal 2019 as well as the ongoing optimization of inventory across stores.

As of February 28, 2018 , total inventory was $2.39 billion , representing an increase of $130.1 million , or 5.8%, compared with the balance as of the start of the fiscal year. The increase primarily reflected the addition of inventory to support new store openings in fiscal 2018 as well as an increase in acquisition costs resulting from higher wholesale valuations, especially in the months following Hurricanes Harvey and Irma.

When considering cash provided by operating activities, management uses an adjusted measure of net cash from operating activities that offsets the changes in auto loan receivables with the corresponding changes in non-recourse notes payable. This is achieved by adding back the cash provided from the net issuances of non-recourse notes payable, which represents the increase in auto loan receivables that were funded through the issuance of non-recourse notes payable during the year. The resulting financial measure, adjusted net cash from operating activities, is a non-GAAP financial measure. We believe adjusted net cash from operating activities is a meaningful metric for investors because it provides better visibility into the cash generated from operations. Including the increases in non-recourse notes payable, net cash provided by operating activities would have been as follows:

RECONCILIATION OF ADJUSTED NET CASH FROM OPERATING ACTIVITIES

	Years Ended February 28		
(In millions)	**2019**	**2018**	**2017**
Net cash provided by (used in) operating activities	**$ 163.0**	$ (80.6)	$ (455.3)
Add: Net issuances of non-recourse notes payable [1]	**890.8**	902.2	1,214.7
Adjusted net cash provided by operating activities	**$ 1,053.8**	$ 821.6	$ 759.4

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

Compared with fiscal 2018 , the increase in fiscal 2019 adjusted net cash provided by operating activities reflected the increase in net earnings when excluding non-cash expenses, which include depreciation and amortization, share-based compensation expense, the provisions for loan losses and cancellation reserves and the deferred income tax provision as well as an increase in cash provided by working capital.

Compared with fiscal 2017 , the increase in fiscal 2018 adjusted net cash provided by operating activities reflected the change in inventory during fiscal 2018 and the increase in net earnings when excluding non-cash expenses. These increases were partially offset by the timing and use of non-recourse funding vehicles in relation to originations of auto loan receivables.

Investing Activities . Net cash used in investing activities totaled $308.5 million in fiscal 2019 , $301.9 million in fiscal 2018 and $420.0 million in fiscal 2017 . Investing activities primarily consist of capital expenditures, which totaled $304.6 million in fiscal 2019 , $296.8 million in fiscal 2018 and $418.1 million in fiscal 2017 . Capital expenditures primarily include store construction costs, real estate acquisitions for planned future store openings and store remodeling expenses. We maintain a multi-year pipeline of sites to support our store growth, so portions of capital spending in one year may relate to stores that we open in subsequent fiscal years. We opened 15 stores in each of fiscal 2019 , fiscal 2018 and fiscal 2017 .

Financing Activities . Net cash provided by financing activities totaled $186.0 million in fiscal 2019 , $413.4 million in fiscal 2018 and $921.9 million in fiscal 2017 . Included in these amounts were net increases in total non-recourse notes payable of $890.8 million , $902.2 million and $1.21 billion , respectively, which were used to provide the financing for the majority of the increases of $1.05 billion , $1.08 billion and $1.21 billion , respectively, in auto loan receivables (see Operating Activities). During fiscal 2019 and fiscal 2018 , we increased net borrowings under the revolving credit facility by $168.9 million and $42.6 million , respectively. During fiscal 2017 , we sold $500 million of senior unsecured notes in a private placement, and used a portion of the proceeds to reduce net borrowings under our revolving credit facility. Net cash provided by financing activities was reduced by stock repurchases of $904.7 million in fiscal 2019 , $579.6 million in fiscal 2018 and $564.3 million in fiscal 2017 .

T OTAL D EBT AND C ASH AND C ASH E QUIVALENTS

(In thousands) **Debt Description** [(1)]	**Maturity Date**		**As of February 28** **2019**		**2018**
Revolving credit facility [(2)]	August 2020	**$**	**366,529**	$	197,627
Term loan [(2)]	August 2020		**300,000**		300,000
3.86% Senior notes	April 2023		**100,000**		100,000
4.17% Senior notes	April 2026		**200,000**		200,000
4.27% Senior notes	April 2028		**200,000**		200,000
Financing and capital lease obligations	Various [(3)]		**527,406**		500,363
Non-recourse notes payable	Various dates through August 2025		**12,535,405**		11,644,615
Total debt [(4)]		**$**	**14,229,340**	$	13,142,605
Cash and cash equivalents		**$**	**46,938**	$	44,525

(1) *Interest is payable monthly, with the exception of our senior notes, which are payable semi-annually.*
(2) *Borrowings accrue interest at variable rates based on LIBOR, the federal funds rate, or the prime rate, depending on the type of borrowing.*
(3) *See Note 15 for additional information on financing and capital lease obligations.*
(4) *Total debt excludes unamortized debt issuance costs. See Note 11 for additional information.*

Borrowings under our $1.20 billion unsecured revolving credit facility are available for working capital and general corporate purposes, and the unused portion is fully available to us. The credit facility, term loan and senior note agreements contain representations and warranties, conditions and covenants. If these requirements were not met, all amounts outstanding or otherwise owed could become due and payable immediately and other limitations could be placed on our ability to use any available borrowing capacity.

See Note 11 for additional information on our revolving credit facility, term loan, senior notes and financing and capital lease obligations.

CAF auto loan receivables are primarily funded through our warehouse facilities and asset-backed term funding transactions. These non-recourse funding vehicles are structured to legally isolate the auto loan receivables, and we would not expect to be able to access the assets of our non-recourse funding vehicles, even in insolvency, receivership or conservatorship proceedings. Similarly, the investors in the non-recourse notes payable have no recourse to our assets beyond the related receivables, the amounts on deposit in reserve accounts and the restricted cash from collections on auto loan receivables. We do, however, continue to have the rights associated with the interest we retain in these non-recourse funding vehicles.

As of February 28, 2019 , $10.66 billion and $1.88 billion of non-recourse notes payable were outstanding related to asset-backed term funding transactions and our warehouse facilities, respectively. During fiscal 2019 , we funded a total of $5.76 billion in asset-backed term funding transactions.

We have periodically increased our warehouse facility limit over time, as our store base, sales and CAF loan originations have grown. See Notes 1(F) and 11 for additional information on the warehouse facilities.

The agreements related to the warehouse facilities include various representations and warranties, covenants and performance triggers. If these requirements are not met, we could be unable to continue to fund receivables through the warehouse facilities. We generally repurchase the receivables funded through these warehouse facilities when we enter into an asset-backed term funding transaction. If our counterparties were to refuse to permit these repurchases it could impact our ability to execute on our funding program. In addition, warehouse facility investors could charge us a higher rate of interest and could have us replaced as servicer. Further, we could be required to deposit collections on the related receivables with the warehouse facility agents on a daily basis and deliver executed lockbox agreements to the warehouse facility agents.

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

The timing and amount of stock repurchases are determined based on share price, market conditions, legal requirements and other factors. Shares repurchased are deemed authorized but unissued shares of common stock. As of February 28, 2019 , a total of $2.75 billion of board authorizations for repurchases were outstanding, with no expiration date. At that date, $2.11 billion remained available for repurchase. See Note 12 for more information on share repurchase activity.

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

CONTRACTUAL OBLIGATIONS [(1)]

	As of February 28, 2019					
(In millions)	**Total**	**Less Than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More Than 5 Years**	**Other**
Short-term debt	$ 1.1	$ 1.1	$ —	$ —	$ —	$ —
Long-term debt	1,165.4	—	665.4	100.0	400.0	—
Interest on debt [(2)]	161.1	20.7	41.5	39.6	59.3	—
Financing and capital lease obligations [(3)]	1,109.2	55.6	102.9	100.5	850.2	—
Operating leases [(3)]	842.7	55.3	101.0	91.3	595.1	—
Purchase obligations [(4)]	169.9	81.0	49.7	25.8	13.4	—
Defined benefit retirement plans [(5)]	76.7	0.5	—	—	—	76.2
Unrecognized tax benefits [(6)]	27.3	—	—	—	—	27.3
Total	$ 3,553.4	$ 214.2	$ 960.5	$ 357.2	$ 1,918.0	$ 103.5

(1) *This table excludes the non-recourse notes payable that relate to auto loan receivables funded through asset-backed term funding transactions and our warehouse facilities. These receivables can only be used as collateral to settle obligations of these vehicles. In addition, the investors in the non-recourse notes payable have no recourse to our assets beyond the related receivables, the amounts on deposit in reserve accounts and the restricted cash from collections on auto loan receivables. See Note 1(F) and 11.*

(2) *Represents interest payments to be made on our fixed-rate senior notes. Due to the uncertainty of forecasting expected variable interest rate payments associated with our revolving credit facility and term loan, such amounts are not included in the table. See Note 11.*

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

(4) *Includes certain enforceable and legally binding obligations related to real estate purchases, third-party outsourcing services and advertising. Purchase obligations exclude agreements that are cancellable at any time without penalty. See Note 17(B).*

(5) *Represents the recognized funded status of our retirement plans, of which $76.2 million has no contractual payment schedule and we expect payments to occur beyond 12 months from February 28, 2019 . See Note 10.*

(6) *Represents the net unrecognized tax benefits related to uncertain tax positions. The timing of payments associated with these tax benefits could not be estimated as of February 28, 2019 . See Note 9.*

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

Interest Rate Exposure - Non-Recourse Notes Payable

As of February 28, 2019 and 2018 , all loans in our portfolio of managed receivables were fixed-rate installment contracts. Financing for these receivables was achieved primarily through non-recourse funding vehicles that, in turn, issued both fixed- and variable-rate notes. Non-recourse funding vehicles include warehouse facilities and asset-backed term funding transactions.

Borrowings under our warehouse facilities are variable-rate debt and are secured by auto loan receivables. The receivables are funded through the warehouse facilities until we elect to fund them through an asset-backed term funding transaction, which issue notes payable that accrue interest predominantly at fixed rates.

Interest rate risk related to variable-rate debt is primarily mitigated by entering into derivative instruments. Our derivative instruments are used to manage differences in the amount of our known or expected cash receipts and our known or expected cash payments principally related to the funding of our auto loan receivables. Disruptions in the credit markets or unexpected changes in prepayment activity could impact the effectiveness of our hedging strategies. Generally, changes in interest rates associated with underlying swaps will not have a material impact on earnings; however, they could have a material impact on cash and cash flows.

Absent any additional actions by the company to further mitigate risk, a 100-basis point increase in market interest rates associated with non-recourse funding vehicles would have decreased our fiscal 2019 net earnings per share by approximately $0.09 .

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

C OMPOSITION OF N ON -R ECOURSE N OTES P AYABLE

(In millions)	As of February 28 2019	2018
Fixed-rate	**$ 10,153.2**	$ 9,367.4
Variable-rate [(1)]	**2,382.2**	2,277.2
Total	**$ 12,535.4**	$ 11,644.6

[(1)] *Variable-rate debt includes borrowings under our warehouse facilities as well as the variable portion of borrowings under our asset-backed term funding transactions. See Note 11.*

Interest Rate Exposure - Other Debt

We have interest rate risk from changing interest rates related to borrowings under our revolving credit facility. We also have interest rate risk from changing interest rates related to borrowings under our term loan; however, a portion of the variable-rate risk is mitigated by a derivative instrument. Substantially all of these borrowings are variable-rate debt based on LIBOR. A 100-basis point increase in market interest rates would have decreased our fiscal 2019 net earnings per share by approximately $0.01 .

Other Market Exposures

Our pension plan has interest rate risk related to its projected benefit obligation ("PBO"). Due to the relatively young overall age of the plan's participants, a 100-basis point change in the discount rate has approximately a 20% effect on the PBO balance. A 100-basis point decrease in the discount rate would have decreased our fiscal 2019 net earnings per share by less than $0.01 . See Note 10 for more information on our benefit plans.

As our cash-settled restricted stock units are liability awards, the related compensation expense is sensitive to changes in the company's stock price. The mark-to-market effect on the liability depends on each award's grant price and previously recognized expense. At February 28, 2019 , a $1.00 change in the company's stock price would have affected fiscal 2019 net earnings per share by less than $0.01 .

Item 8. Consolidated Financial Statements and Supplementary Data.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the company. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control—Integrated Framework (2013)* , issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of February 28, 2019 .

KPMG LLP, the company's independent registered public accounting firm, has issued a report on our internal control over financial reporting. Their report is included herein.

WILLIAM D. NASH
PRESIDENT AND CHIEF EXECUTIVE OFFICER

THOMAS W. REEDY
EXECUTIVE VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors
CarMax, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of CarMax, Inc. and subsidiaries (the Company) as of February 28, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended February 28, 2019 and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of February 28, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 28, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended February 28, 2019, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 28, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting* . Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as the Company’s auditor since 1996.

KPMG LLP

Richmond, Virginia
April 19, 2019

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands except per share data)		2019	% [1]		2018	% [1]		2017	% [1]
					Years Ended February 28				
SALES AND OPERATING REVENUES :									
Used vehicle sales	**$**	**15,172,772**	**83.5**	$	14,392,360	84.1	$	13,270,662	83.6
Wholesale vehicle sales		**2,392,992**	**13.2**		2,181,156	12.7		2,082,464	13.1
Other sales and revenues		**607,336**	**3.3**		546,693	3.2		521,992	3.3
NET SALES AND OPERATING REVENUES		**18,173,100**	**100.0**		17,120,209	100.0		15,875,118	100.0
COST OF SALES:									
Used vehicle cost of sales		**13,544,033**	**74.5**		12,824,741	74.9		11,818,951	74.4
Wholesale vehicle cost of sales		**1,961,959**	**10.8**		1,788,704	10.4		1,719,821	10.8
Other cost of sales		**186,517**	**1.0**		177,905	1.0		153,052	1.0
TOTAL COST OF SALES		**15,692,509**	**86.4**		14,791,350	86.4		13,691,824	86.2
GROSS PROFIT		**2,480,591**	**13.6**		2,328,859	13.6		2,183,294	13.8
CARMAX AUTO FINANCE INCOME		**438,690**	**2.4**		421,182	2.5		368,984	2.3
Selling, general and administrative expenses		**1,730,275**	**9.5**		1,617,051	9.4		1,488,504	9.4
Interest expense		**75,792**	**0.4**		70,745	0.4		56,416	0.4
Other expense (income)		**408**	**—**		(1,363)	—		953	—
Earnings before income taxes		**1,112,806**	**6.1**		1,063,608	6.2		1,006,405	6.3
Income tax provision		**270,393**	**1.5**		399,496	2.3		379,435	2.4
NET EARNINGS	**$**	**842,413**	**4.6**	$	664,112	3.9	$	626,970	3.9
WEIGHTED AVERAGE COMMON SHARES:									
Basic		**174,463**			182,660			190,343	
Diluted		**175,884**			184,470			192,215	
NET EARNINGS PER SHARE:									
Basic	**$**	**4.83**		$	3.64		$	3.29	
Diluted	**$**	**4.79**		$	3.60		$	3.26	

[1] *Percents are calculated as a percentage of net sales and operating revenues and may not total due to rounding.*

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	Years Ended February 28 2019	2018	2017
NET EARNINGS	**$ 842,413**	$ 664,112	$ 626,970
Other comprehensive (loss) income, net of taxes:			
Net change in retirement benefit plan unrecognized actuarial losses	**(1,981)**	(1,371)	949
Net change in cash flow hedge unrecognized gains	**(11,717)**	14,194	12,692
Other comprehensive (loss) income, net of taxes	**(13,698)**	12,823	13,641
TOTAL COMPREHENSIVE INCOME	**$ 828,715**	$ 676,935	$ 640,611

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(In thousands except share data)	As of February 28 2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 46,938**	$ 44,525
Restricted cash from collections on auto loan receivables	**440,669**	399,442
Accounts receivable, net	**139,850**	133,321
Inventory	**2,519,455**	2,390,694
Other current assets	**67,101**	93,462
TOTAL CURRENT ASSETS	**3,214,013**	3,061,444
Auto loan receivables, net	**12,428,487**	11,535,704
Property and equipment, net	**2,828,058**	2,667,061
Deferred income taxes	**61,346**	63,256
Other assets	**185,963**	158,807
TOTAL ASSETS	**$ 18,717,867**	$ 17,486,272
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	**$ 593,171**	$ 529,733
Accrued expenses and other current liabilities	**316,215**	278,771
Accrued income taxes	**3,784**	—
Short-term debt	**1,129**	127
Current portion of financing and capital lease obligations	**12,166**	9,994
Current portion of non-recourse notes payable	**385,044**	355,433
TOTAL CURRENT LIABILITIES	**1,311,509**	1,174,058
Long-term debt, excluding current portion	**1,163,795**	995,479
Financing and capital lease obligations, excluding current portion	**515,240**	490,369
Non-recourse notes payable, excluding current portion	**12,127,290**	11,266,964
Other liabilities	**243,005**	242,553
TOTAL LIABILITIES	**15,360,839**	14,169,423
Commitments and contingent liabilities		
SHAREHOLDERS' EQUITY:		
Common stock, $0.50 par value; 350,000,000 shares authorized; 167,478,924 and 179,747,894 shares issued and outstanding as of February 28, 2019 and February 28, 2018, respectively	**83,739**	89,874
Capital in excess of par value	**1,237,153**	1,234,047
Accumulated other comprehensive loss	**(68,010)**	(54,312)
Retained earnings	**2,104,146**	2,047,240
TOTAL SHAREHOLDERS' EQUITY	**3,357,028**	3,316,849
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 18,717,867**	$ 17,486,272

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended February 28 2019	2018	2017
OPERATING ACTIVITIES:			
Net earnings	**$ 842,413**	$ 664,112	$ 626,970
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation and amortization	**182,247**	179,942	168,875
Share-based compensation expense	**75,011**	61,879	91,595
Provision for loan losses	**153,848**	137,591	150,598
Provision for cancellation reserves	**63,937**	62,749	64,120
Deferred income tax provision	**2,300**	81,007	2,324
Other	**2,825**	1,298	4,169
Net (increase) decrease in:			
Accounts receivable, net	**(6,529)**	19,067	(20,217)
Inventory	**(128,761)**	(130,131)	(328,534)
Other current assets	**32,890**	(34,620)	(2,781)
Auto loan receivables, net	**(1,046,631)**	(1,077,219)	(1,209,782)
Other assets	**(7,230)**	(2,361)	143
Net increase (decrease) in:			
Accounts payable, accrued expenses and other current liabilities and accrued income taxes	**86,360**	38,286	74,579
Other liabilities	**(89,709)**	(82,150)	(77,370)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**162,971**	(80,550)	(455,311)
INVESTING ACTIVITIES:			
Capital expenditures	**(304,636)**	(296,816)	(418,144)
Proceeds from disposal of property and equipment	**692**	97	1,229
Purchases of investments	**(6,147)**	(6,836)	(3,774)
Sales of investments	**1,578**	1,692	730
NET CASH USED IN INVESTING ACTIVITIES	**(308,513)**	(301,863)	(419,959)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term debt, net	**1,002**	65	(366)
Proceeds from issuances of long-term debt	**4,314,500**	4,203,150	2,974,600
Payments on long-term debt	**(4,146,600)**	(4,160,650)	(2,734,600)
Cash paid for debt issuance costs	**(17,063)**	(16,261)	(17,118)
Payments on financing and capital lease obligations	**(10,012)**	(8,997)	(10,817)
Issuances of non-recourse notes payable	**10,892,502**	10,198,962	9,610,035
Payments on non-recourse notes payable	**(10,001,712)**	(9,296,773)	(8,395,360)
Repurchase and retirement of common stock	**(904,726)**	(579,570)	(564,337)
Equity issuances	**58,130**	73,520	59,869
NET CASH PROVIDED BY FINANCING ACTIVITIES	**186,021**	413,446	921,906
Increase in cash, cash equivalents and restricted cash	**40,479**	31,033	46,636
Cash, cash equivalents and restricted cash at beginning of year	**554,898**	523,865	477,229
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	**$ 595,377**	$ 554,898	$ 523,865

RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH TO THE CONSOLIDATED BALANCE SHEETS

	2019	2018	2017
Cash and cash equivalents	**$ 46,938**	$ 44,525	$ 38,416
Restricted cash from collections on auto loan receivables	**440,669**	399,442	380,353
Restricted cash included in other assets	**107,770**	110,931	105,096
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	**$ 595,377**	$ 554,898	$ 523,865

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)	Common Shares Outstanding		Common Stock		Capital in Excess of Par Value		Retained Earnings		Accumulated Other Comprehensive Loss		Total
Balance as of February 29, 2016	194,712	$	97,356	$	1,130,822	$	1,746,804	$	(70,196)	$	2,904,786
Net earnings	—		—		—		626,970		—		626,970
Other comprehensive income	—		—		—		—		13,641		13,641
Share-based compensation expense	—		—		53,356		—		—		53,356
Repurchases of common stock	(10,262)		(5,131)		(62,160)		(490,491)		—		(557,782)
Exercise of common stock options	1,887		943		58,926		—		—		59,869
Stock incentive plans, net shares issued	212		106		(4,619)		—		—		(4,513)
Tax effect from the exercise/vesting of equity awards	—		—		12,253		—		—		12,253
Balance as of February 28, 2017	186,549		93,274		1,188,578		1,883,283		(56,555)		3,108,580
Net earnings	—		—		—		664,112		—		664,112
Other comprehensive income	—		—		—		—		12,823		12,823
Share-based compensation expense	—		—		38,340		—		—		38,340
Repurchases of common stock	(8,897)		(4,448)		(58,455)		(510,735)		—		(573,638)
Exercise of common stock options	1,866		933		72,587		—		—		73,520
Stock incentive plans, net shares issued	230		115		(7,003)		—		—		(6,888)
Adoption of ASU 2018-02	—		—		—		10,580		(10,580)		—
Balance as of February 28, 2018	179,748		89,874		1,234,047		2,047,240		(54,312)		3,316,849
Net earnings	—		—		—		842,413		—		842,413
Other comprehensive loss	—		—		—		—		(13,698)		(13,698)
Share-based compensation expense	—		—		45,870		—		—		45,870
Repurchases of common stock	(13,635)		(6,817)		(97,913)		(798,371)		—		(903,101)
Exercise of common stock options	1,314		657		57,474		—		—		58,131
Stock incentive plans, net shares issued	52		25		(2,325)		—		—		(2,300)
Adoption of ASU 2014-09	—		—		—		12,864		—		12,864
Balance as of February 28, 2019	**167,479**	**$**	**83,739**	**$**	**1,237,153**	**$**	**2,104,146**	**$**	**(68,010)**	**$**	**3,357,028**

See accompanying notes to consolidated financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Business and Background

CarMax, Inc. ("we," "our," "us," "CarMax" and "the company"), including its wholly owned subsidiaries, is the largest retailer of used vehicles in the United States. 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.

We deliver an unrivaled customer experience by offering a broad selection of quality used vehicles and related products and services at competitive, no-haggle prices using a customer-friendly sales process in an attractive, modern sales facility, as well as through carmax.com and our mobile apps. We provide customers with a range of related products and services, including the appraisal and purchase of vehicles directly from consumers; the financing of retail vehicle purchases through CAF and third-party finance providers; the sale of extended protection plan ("EPP") products, which include extended service plans ("ESPs") and guaranteed asset protection ("GAP"); and vehicle repair service. Vehicles purchased through the appraisal process that do not meet our retail standards are sold to licensed dealers through on-site wholesale auctions.

(B) Basis of Presentation and Use of Estimates

The consolidated financial statements include the accounts of CarMax and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform to the current year's presentation. Amounts and percentages may not total due to rounding.

On March 1, 2018, we adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09 related to revenue recognition using the modified retrospective transition method for all contracts. Results for reporting periods beginning after March 1, 2018, are presented under ASU 2014-09, while comparative year amounts have not been restated and continue to be presented under the previous accounting standard. See Note 2 for further details.

In connection with our adoption of FASB ASU 2016-18 during the current fiscal year, restricted cash is now included with cash and cash equivalents in the reconciliation of beginning of year and end of year total amounts in the consolidated statements of cash flows. Prior year amounts have been reclassified to conform to the current year's presentation.

(C) Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less and are not significant to the consolidated balance sheets as of February 28, 2019 and 2018 .

(D) Restricted Cash from Collections on Auto Loan Receivables

Cash equivalents totaling $440.7 million as of February 28, 2019 , and $399.4 million as of February 28, 2018 , consisted of collections of principal, interest and fee payments on auto loan receivables that are restricted for payment to holders of non-recourse notes payable pursuant to the applicable agreements.

(E) Accounts Receivable, Net

Accounts receivable, net of an allowance for doubtful accounts, includes certain amounts due from third-party finance providers and customers, and other miscellaneous receivables. The allowance for doubtful accounts is estimated based on historical experience and trends.

(F) Financing and Securitization Transactions

We maintain a revolving funding program composed of three warehouse facilities ("warehouse facilities") that we use to fund auto loan receivables originated by CAF. We typically elect to fund these receivables through an asset-backed term funding transaction, such as a term securitization or alternative funding arrangement, at a later date. We sell the auto loan receivables to one of three wholly owned, bankruptcy-remote, special purpose entities that transfer an undivided percentage ownership interest in the receivables, but not the receivables themselves, to entities formed by third-party investors. These entities issue asset-backed commercial paper or utilize other funding sources supported by the transferred receivables, and the proceeds are used to finance the related receivables.

We typically use term securitizations to provide long-term funding for most of the auto loan receivables initially funded through the warehouse facilities. In these transactions, a pool of auto loan receivables is sold to a bankruptcy-remote, special purpose entity that, in turn, transfers the receivables to a special purpose securitization trust. The securitization trust issues asset-backed securities, secured or otherwise supported by the transferred receivables, and the proceeds from the sale of the asset-backed securities are used to finance the securitized receivables.

We are required to evaluate term securitization trusts for consolidation. In our capacity as servicer, we have the power to direct the activities of the trusts that most significantly impact the economic performance of the trusts. In addition, we have the obligation to absorb losses (subject to limitations) and the rights to receive any returns of the trusts, which could be significant. Accordingly, we are the primary beneficiary of the trusts and are required to consolidate them.

We recognize transfers of auto loan receivables into the warehouse facilities and asset-backed term funding transactions, including term securitizations (together, "non-recourse funding vehicles"), as secured borrowings, which result in recording the auto loan receivables and the related non-recourse notes payable on our consolidated balance sheets.

These receivables can only be used as collateral to settle obligations of the related non-recourse funding vehicles. The non-recourse funding vehicles and investors have no recourse to our assets beyond the related receivables, the amounts on deposit in reserve accounts and the restricted cash from collections on auto loan receivables. We have not provided financial or other support to the non-recourse funding vehicles that was not previously contractually required, and there are no additional arrangements, guarantees or other commitments that could require us to provide financial support to the non-recourse funding vehicles.

See Notes 4 and 11 for additional information on auto loan receivables and non-recourse notes payable.

(G) Inventory

Inventory is primarily comprised of vehicles held for sale or currently undergoing reconditioning and is stated at the lower of cost or net realizable value ("NRV"). Vehicle inventory cost is determined by specific identification. Parts, labor and overhead costs associated with reconditioning vehicles, as well as transportation and other incremental expenses associated with acquiring and reconditioning vehicles, are included in inventory.

(H) Auto Loan Receivables, Net

Auto loan receivables include amounts due from customers related to retail vehicle sales financed through CAF and 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 expected to become evident during the following 12 months. The allowance for loan losses is primarily based on the composition of the portfolio of managed receivables, historical loss trends and forecasted forward loss curves. For receivables that have less than 12 months of performance history, the estimate also takes into account the credit grades of the receivables and historical losses by credit grade to supplement actual loss data in estimating future performance. Once the receivables have 12 months of performance history, the estimate reflects actual loss experience of those receivables to date along with forward loss curves to predict future performance. The forward loss curves are constructed using historical performance data and show the average timing of losses over the course of a receivable's life.

We also consider recent trends in delinquencies and defaults, recovery rates and the economic environment in assessing the models used in estimating the allowance for loan losses, and may adjust the allowance for loan losses to reflect factors that may not be captured in the models. In addition, we periodically consider whether the use of additional metrics would result in improved model performance and revise the models when appropriate. The provision for loan losses is the periodic expense of maintaining an adequate allowance.

An account is considered delinquent when the related customer fails to make a substantial portion of a scheduled payment on or before the due date. In general, accounts are charged-off on the last business day of the month during which the earliest of the following occurs: the receivable is 120 days or more delinquent as of the last business day of the month, the related vehicle is repossessed and liquidated, or the receivable is otherwise deemed uncollectible. For purposes of determining impairment, auto loans are evaluated collectively, as they represent a large group of smaller-balance homogeneous loans, and therefore, are not individually evaluated for impairment. See Note 4 for additional information on auto loan receivables.

Interest income and expenses related to auto loans are included in CAF income. Interest income on auto loan receivables is recognized when earned based on contractual loan terms. All loans continue to accrue interest until repayment or charge-off. Direct costs associated with loan originations are not considered material, and thus, are expensed as incurred. See Note 3 for additional information on CAF income.

(I) Property and Equipment
Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the shorter of the asset's estimated useful life or the lease term, if applicable. Costs incurred during new store construction are capitalized as construction-in-progress and reclassified to the appropriate fixed asset categories when the store is completed.

Estimated Useful Lives

	Life
Buildings	25 years
Leasehold improvements	15 years
Furniture, fixtures and equipment	3 – 15 years

We review long-lived assets for impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We recognize impairment when the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value of the asset. See Note 7 for additional information on property and equipment.

(J) Other Assets
Restricted Cash on Deposit in Reserve Accounts. The restricted cash on deposit in reserve accounts is for the benefit of holders of non-recourse notes payable, and these funds are not expected to be available to the company or its creditors. In the event that the cash generated by the related receivables in a given period was insufficient to pay the interest, principal and other required payments, the balances on deposit in the reserve accounts would be used to pay those amounts. Restricted cash on deposit in reserve accounts is invested in money market securities or bank deposit accounts and was $61.1 million as of February 28, 2019 and $56.8 million as of February 28, 2018 .

Other Investments. Other investments includes restricted money market securities primarily held to satisfy certain insurance program requirements, investments held in a rabbi trust established to fund informally our executive deferred compensation plan and investments in equity securities. Money market securities and mutual funds are reported at fair value, and investments in equity securities are reported at cost less any impairment and adjusted for any observable changes in price. Gains and losses on these securities are reflected as a component of other expense (income). Other investments totaled $83.7 million as of February 28, 2019 and $80.9 million as of February 28, 2018 .

(K) Financing Obligations
We generally account for sale-leaseback transactions as financing obligations. Accordingly, we record certain of the assets subject to these transactions on our consolidated balance sheets in property and equipment and the related sales proceeds as financing obligations. Depreciation is recognized on the assets over their estimated useful lives, generally 25 years . A portion of the periodic lease payments is recognized as interest expense and the remainder reduces the obligation. In the event the sale-leasebacks are modified or extended beyond their original term, the related obligation is increased based on the present value of the revised future minimum lease payments on the date of the modification, with a corresponding increase to the net carrying amount of the assets subject to these transactions. See Notes 11 and 15 for additional information on financing obligations.

(L) Accrued Expenses
As of February 28, 2019 and 2018 , accrued expenses and other current liabilities included accrued compensation and benefits of $155.9 million and $148.6 million , respectively; loss reserves for general liability and workers' compensation insurance of $37.8 million and $36.5 million , respectively; and the current portion of cancellation reserves. See Note 8 for additional information on cancellation reserves.

(M) Defined Benefit Plan Obligations

The recognized funded status of defined benefit retirement plan obligations is included both in accrued expenses and other current liabilities and in other liabilities. The current portion represents benefits expected to be paid from our benefit restoration plan over the next 12 months. The defined benefit retirement plan obligations are determined using a number of actuarial assumptions. Key assumptions used in measuring the plan obligations include the discount rate, rate of return on plan assets and mortality rate. See Note 10 for additional information on our benefit plans.

(N) Insurance Liabilities

Insurance liabilities are included in accrued expenses and other current liabilities. We use a combination of insurance and self-insurance for a number of risks including workers' compensation, general liability and employee-related health care costs, a portion of which is paid by associates. Estimated insurance liabilities are determined by considering historical claims experience, demographic factors and other actuarial assumptions.

(O) Revenue Recognition

Our revenue consists primarily of used and wholesale vehicle sales, as well as sales from EPP products and vehicle repair service. See Note 2 for additional information on our significant accounting policies related to revenue recognition.

(P) Cost of Sales

Cost of sales includes the cost to acquire vehicles and the reconditioning and transportation costs associated with preparing the vehicles for resale. It also includes payroll, fringe benefits, and parts, labor and overhead costs associated with reconditioning and vehicle repair services. The gross profit earned by our service department for used vehicle reconditioning service is a reduction of cost of sales. We maintain a reserve to eliminate the internal profit on vehicles that have not been sold.

(Q) Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses primarily include compensation and benefits, other than payroll related to reconditioning and vehicle repair services; depreciation, rent and other occupancy costs; advertising; and IT expenses, insurance, bad debt, travel, preopening and relocation costs, charitable contributions and other administrative expenses.

(R) Advertising Expenses

Advertising costs are expensed as incurred and substantially all are included in SG&A expenses. Total advertising expenses were $167.0 million in fiscal 2019 , $158.6 million in fiscal 2018 and $146.0 million in fiscal 2017 .

(S) Store Opening Expenses

Costs related to store openings, including preopening costs, are expensed as incurred and are included in SG&A expenses.

(T) Share-Based Compensation

Share-based compensation represents the cost related to share-based awards granted to employees and non-employee directors. We measure share-based compensation cost at the grant date, based on the estimated fair value of the award, and we recognize the cost on a straight-line basis, net of estimated forfeitures, over the grantee's requisite service period, which is generally the vesting period of the award. We estimate the fair value of stock options using a binomial valuation model. Key assumptions used in estimating the fair value of options are dividend yield, expected volatility, risk-free interest rate and expected term. The fair values of restricted stock, stock-settled performance stock units and stock-settled deferred stock units are based on the volume-weighted average market value on the date of the grant. The fair value of stock-settled market stock units is determined using a Monte-Carlo simulation based on the expected market price of our common stock on the vesting date and the expected number of converted common shares. Cash-settled restricted stock units are liability awards with fair value measurement based on the market price of CarMax common stock as of the end of each reporting period. Share-based compensation expense is recorded in either cost of sales, CAF income or SG&A expenses based on the recipients' respective function.

We record deferred tax assets for awards that result in deductions on our income tax returns, based on the amount of compensation expense recognized and the statutory tax rate in the jurisdiction in which we will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the income tax return are recorded in income tax expense. See Note 12 for additional information on stock-based compensation.

(U) Derivative Instruments and Hedging Activities

We enter into derivative instruments to manage certain risks arising from both our business operations and economic conditions that result in the future known receipt or payment of uncertain cash amounts, the values of which are impacted by interest rates. We recognize the derivatives at fair value on the consolidated balance sheets, and where applicable, such contracts covered by master netting agreements are reported net. Gross positive fair values are netted with gross negative fair values by counterparty. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. We may enter into derivative contracts that are intended to economically hedge certain risks, even though hedge accounting may not apply or we do not elect to apply hedge accounting. See Note 5 for additional information on derivative instruments and hedging activities.

(V) Income Taxes

We file a consolidated federal income tax return for a majority of our subsidiaries. Certain subsidiaries are required to file separate partnership or corporate federal income tax returns. Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes, measured by applying currently enacted tax laws. A deferred tax asset is recognized if it is more likely than not that a benefit will be realized. Changes in tax laws and tax rates are reflected in the income tax provision in the period in which the changes are enacted. 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.

We recognize tax liabilities when, despite our belief that our tax return positions are supportable, we believe that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the highest tax benefit that is greater than 50% likely of being realized upon settlement. The current portion of these tax liabilities is included in accrued income taxes and any noncurrent portion is included in other liabilities. To the extent that the final tax outcome of these matters is different from the amounts recorded, the differences impact income tax expense in the period in which the determination is made. Interest and penalties related to income tax matters are included in SG&A expenses. See Note 9 for additional information on income taxes.

(W) Net Earnings Per Share

Basic net earnings per share is computed by dividing net earnings available for basic common shares by the weighted average number of shares of common stock outstanding. Diluted net earnings per share is computed by dividing net earnings available for diluted common shares by the sum of the weighted average number of shares of common stock outstanding and dilutive potential common stock. Diluted net earnings per share is calculated using the "if-converted" treasury stock method. See Note 13 for additional information on net earnings per share.

(X) Recent Accounting Pronouncements

Adopted in the Current Period.

In May 2014, the FASB issued an accounting pronouncement (FASB ASU 2014-09) related to revenue recognition. This ASU, along with subsequent ASUs issued to clarify certain provisions of ASU 2014-09, provides a single, comprehensive revenue recognition model for all contracts with customers. The standard contains principles that an entity applies to determine the measurement of revenue and the timing of when it is recognized. The entity recognizes revenue to reflect the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services.

We adopted this pronouncement for our fiscal year beginning March 1, 2018, using the modified retrospective transition method for all contracts. Results for reporting periods beginning after March 1, 2018, are presented under ASU 2014-09, while comparative period amounts have not been restated and continue to be presented under the previous accounting standard.

We recognize revenue when control of the good or service has been transferred to the customer, generally either at the time of sale or upon delivery to a customer. Our performance obligations are clearly identifiable and therefore adoption of this pronouncement did not result in any significant changes to the assessment of such performance obligations, conclusions related to revenue that is currently recognized on a net basis, or the timing of our revenue recognition, with the exception of profit-sharing revenues earned on the ESP contracts we sell. See Note 2 for our revenue recognition policies. The adoption of this pronouncement did not result in significant changes to our processes, internal controls or systems.

In January 2016, the FASB issued an accounting pronouncement (FASB ASU 2016-01) related to financial instruments (FASB ASC Subtopic 825-10). This pronouncement, along with ASU 2018-03 issued in February 2018, requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net earnings. The pronouncements also impact financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. We adopted this pronouncement for our fiscal year beginning March 1, 2018, and it did not have a material effect on our consolidated financial statements.

In August 2016, the FASB issued an accounting pronouncement (FASB ASU 2016-15) related to the classification of certain cash receipts and cash payments on the statement of cash flows. The pronouncement provides clarification guidance on eight specific cash flow presentation issues that have developed due to diversity in practice. The issues include, but are not limited to, debt prepayment or extinguishment costs, settlement of zero-coupon debt, proceeds from the settlement of insurance claims, and cash receipts from payments on beneficial interests in securitization transactions. We adopted this pronouncement for our fiscal year beginning March 1, 2018, and it did not have an effect on our consolidated financial statements.

In October 2016, the FASB issued an accounting pronouncement (FASB ASU 2016-16) related to the income tax effects of intra-entity transfers of assets other than inventory. The pronouncement requires that entities recognize the income tax effects of intra-entity transfers of assets other than inventory when the transfer occurs. Previous U.S. GAAP prohibited the recognition of those tax effects until the asset had been sold to an outside party. We adopted this pronouncement for our fiscal year beginning March 1, 2018 , and it did not have an effect on our consolidated financial statements.

In November 2016, the FASB issued an accounting pronouncement (FASB ASU 2016-18) related to the presentation of restricted cash in the statement of cash flows. The pronouncement requires that a statement of cash flows explain the change during the period in cash, cash equivalents, and amounts generally described as restricted cash. Amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted this pronouncement for our fiscal year beginning March 1, 2018. Restricted cash is now included with cash and cash equivalents in the reconciliation of beginning of year and end of period total amounts in the consolidated statements of cash flows for all periods presented, resulting in a decrease in cash used in investing activities of $24.9 million and $45.6 million for the years ended February 28, 2018 and February 28, 2017 , respectively.

In March 2017, the FASB issued an accounting pronouncement (FASB ASU 2017-07) related to net periodic pension cost and net periodic postretirement benefit cost. The standard provides guidance on the presentation of net benefit cost in an employer's income statement and on the components eligible for capitalization. This pronouncement requires that an employer report the service cost component in the same line item(s) as other employee compensation costs arising from services rendered during the period and report the other components of net benefit cost separately from the service cost component and outside a subtotal of operating income. Only the service cost component will be eligible for capitalization. We adopted this pronouncement for our fiscal year beginning March 1, 2018, and it did not have a material effect on our consolidated financial statements.

In May 2017, the FASB issued an accounting pronouncement (FASB ASU 2017-09) to provide guidance on determining which changes to the terms or conditions of share-based payment awards require an entity to apply modification accounting under Accounting Standards Codification ("ASC") Topic 718. We adopted this pronouncement for our fiscal year beginning March 1, 2018 , and it did not have an effect on our consolidated financial statements.

Effective in Future Periods.
In February 2016, the FASB issued an accounting pronouncement (FASB ASU 2016-02) related to the accounting for leases. This pronouncement, along with subsequent ASUs issued to clarify certain provisions of ASU 2016-02, requires lessees to record most leases on their balance sheet while also disclosing key information about those lease arrangements. Under the new guidance, lease classification as either a finance lease or an operating lease will affect the pattern and classification of expense recognition in the income statement. The classification criteria to distinguish between finance and operating leases are generally consistent with the classification criteria to distinguish between capital and operating leases under existing lease accounting guidance. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018.

We plan to adopt the new standard for our fiscal year beginning March 1, 2019, using the modified retrospective transition approach; specifically, using the optional transition method provided by the accounting pronouncement (FASB ASU 2018-11), which allows for transition through a cumulative-effect adjustment at the beginning of the period of adoption. Comparative periods presented in the financial statements issued after adoption will continue to be presented in accordance with the previous lease guidance (ASC 840). At transition, we plan to elect the package of practical expedients that provides companies the ability to not reassess lease identification, lease classification or initial direct costs for contracts existing as of the transition date. We do not plan to elect the hindsight practical expedient.

We expect to record an increase of approximately $450 million in both assets and liabilities on our opening consolidated balance sheets as a result of recognizing new right-of-use assets and lease liabilities as of March 1, 2019 . This estimate is based on our lease portfolio as of February 28, 2019 . We expect to record an additional increase of approximately $240 million in both assets and liabilities in the first quarter of fiscal 2020 as a result of remeasurement due to changes in our assessment of the lease term subsequent to the adoption of the standard. We do not expect this standard to have a material impact on our sale-leaseback transactions currently accounted for as financing obligations, and we believe most of our leases will maintain their current lease classification under the new standard. As a result, we do not expect the new standard to have a material effect on our expense recognition pattern or, in turn, our consolidated statements of operations. The new standard will not impact our compliance with current debt covenants. As an accounting policy, we plan to separate lease and nonlease components when accounting for all leases. Additionally, we plan to elect the short-term lease exemption for all leases. We are in the process of finalizing implementation of new business processes, accounting policies, systems and internal controls in preparation of adopting the new standard.

In June 2016, the FASB issued an accounting pronouncement (FASB ASU 2016-13) related to the measurement of credit losses on financial instruments. This pronouncement, along with a subsequent ASU issued to clarify certain provisions of ASU 2016-13, changes the impairment model for most financial assets and will require the use of an "expected loss" model for instruments measured at amortized cost. Under this model, entities will be required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. We plan to adopt this pronouncement for our fiscal year beginning March 1, 2020. We are currently evaluating the effect on our consolidated financial statements, as well as the impacts on our business processes, systems and internal controls, and expect that the standard will have a material impact on our calculation of the allowance for loan losses.

In August 2017, the FASB issued an accounting pronouncement (FASB ASU 2017-12) related to the accounting for derivatives and hedging. The pronouncement expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. It also includes certain targeted improvements to simplify the application of current guidance related to hedge accounting. The pronouncement is effective f or fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We plan to adopt this pronouncement for our fiscal year beginning March 1, 2019, and we do not expect it to have a material effect on our consolidated financial statements.

In June 2018, the FASB issued an accounting pronouncement (FASB ASU 2018-07) to expand the scope of ASC Topic 718, Compensation - Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We plan to adopt this pronouncement for our fiscal year beginning March 1, 2019, and we do not expect it to have a material effect on our consolidated financial statements.

In August 2018, the FASB issued an accounting pronouncement (FASB ASU 2018-13) related to disclosure requirements for fair value measurements. The pronouncement eliminates, modifies and adds disclosure requirements for fair value measurements. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We are currently in the process of evaluating the effects of this pronouncement on our consolidated financial statements, including potential early adoption.

In August 2018, the FASB issued an accounting pronouncement (FASB ASU 2018-14) related to disclosure requirements for defined benefit plans. The pronouncement eliminates, modifies and adds disclosure requirements for defined benefit plans. The pronouncement is effective for fiscal years ending after December 15, 2020, and early adoption is permitted. We are currently in the process of evaluating the effects of this pronouncement on our consolidated financial statements, including potential early adoption.

In August 2018, the FASB issued an accounting pronouncement (FASB ASU 2018-15) related to a customer's accounting for implementation costs incurred in a cloud computing arrangement that is considered a service contract. This pronouncement aligns the requirements for capitalizing implementation costs in such arrangements with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. We plan to early adopt this pronouncement for our fiscal year beginning March 1, 2019 using the prospective approach. We do not expect the adoption of this pronouncement to have a material effect on our consolidated financial statements.

In October 2018, the FASB issued an accounting pronouncement (FASB ASU 2018-16) to permit the use of the Overnight Index Swap Rate based on the Secured Overnight Financing Rate as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815. For entities that have not already adopted ASU 2017-12 (Derivatives and Hedging), the amendments in this pronouncement are required to be adopted concurrently with the amendments in ASU 2017-12. We plan to adopt ASU 2018-16 for our fiscal year beginning March 1, 2019, concurrently with the adoption of ASU 2017-12, and we do not expect it to have a material effect on our consolidated financial statements.

In October 2018, the FASB issued an accounting pronouncement (FASB ASU 2018-17) related to related party guidance for variable interest entities. The amendments in this pronouncement are effective for fiscal years beginning after December 15, 2019 and early adoption is permitted. We plan to adopt this pronouncement for our fiscal year beginning March 1, 2020, and we do not expect it to have a material effect on our consolidated financial statements.

2. Revenue

We recognize revenue when control of the good or service has been transferred to the customer, generally either at the time of sale or upon delivery to a customer. Our contracts have a fixed contract price and revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. 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. We generally expense sales commissions when incurred because the amortization period would have been less than one year. These costs are recorded within SG&A. We do not have any significant payment terms as payment is received at or shortly after the point of sale.

On March 1, 2018, we adopted FASB ASU 2014-09 related to revenue recognition using the modified retrospective transition method for all contracts. In connection with the adoption of this standard, we recorded a net after-tax cumulative-effect adjustment to increase beginning retained earnings by $12.9 million to recognize profit-sharing revenues on ESP contracts sold on or before February 28, 2018, with corresponding adjustments to other assets and deferred income taxes. The adoption also resulted in $8.4 million recorded in other sales and revenues on our consolidated statement of earnings for fiscal 2019 , relating to additional profit-sharing revenues to which we expect to be entitled. Lastly, the adoption resulted in a $21.0 million increase to other current assets and accrued expenses and other current liabilities as of February 28, 2019 related to estimated vehicle sales returns, which were previously shown on a net basis.

Disaggregation of Revenue

	Years Ended February 28		
(In millions)	**2019**	**2018**	**2017**
Used vehicle sales	**$ 15,172.8**	$ 14,392.4	$ 13,270.7
Wholesale vehicle sales	**2,393.0**	2,181.2	2,082.5
Other sales and revenues:			
Extended protection plan revenues	**382.5**	336.4	305.5
Third-party finance fees, net	**(43.4)**	(49.9)	(38.4)
Service revenues	**136.8**	134.0	133.9
Other	**131.4**	126.2	121.0
Total other sales and revenues	**607.3**	546.7	522.0
Total net sales and operating revenues	**$ 18,173.1**	$ 17,120.2	$ 15,875.1

Used Vehicle Sales. We sell used vehicles at our retail stores, and revenue from the sale of these vehicles is recognized upon transfer of control of the vehicle to the customer. As part of our customer service strategy, we guarantee the retail vehicles we sell with a 7-day, money-back guarantee. We record a reserve for estimated returns based on historical experience and trends. The reserve for estimated returns is presented gross on the consolidated balance sheets, with a return asset recorded in other current assets and a refund liability recorded in accrued expenses and other current liabilities. We also guarantee the used vehicles we sell with at least a 30 -day limited warranty. These warranties are deemed assurance-type warranties and accounted for as warranty obligations. See Note 17 for additional information on this warranty and its related obligation.

Wholesale Vehicle Sales. Wholesale vehicles are sold at our auctions, and revenue from the sale of these vehicles is recognized upon transfer of control of the vehicle to the customer. Dealers also pay a fee to us based on the sale price of the vehicles they purchase. This fee is recognized as revenue at the time of sale. While we provide condition disclosures on each wholesale vehicle sold, the vehicles are subject to a limited right of return. We record a reserve for estimated returns based on historical experience and trends. The reserve for estimated returns is presented gross on the consolidated balance sheets, with a return asset recorded in other current assets and a refund liability recorded in accrued expenses and other current liabilities.

EPP Revenues. We also sell ESP and GAP products on behalf of unrelated third parties, who are primarily responsible for fulfilling the contract, to customers who purchase a retail 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, on a net basis, at the time of sale. We also record a reserve for estimated contract cancellations. 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 EPP sales, customer financing default or prepayment rates, and shifts in customer behavior, including those related to changes in the coverage or term of the product. The current portion of estimated cancellation reserves is recognized as a component of accrued expenses and other current liabilities with the remaining amount recognized in other liabilities. See Note 8 for additional information on cancellation reserves.

We are contractually entitled to receive profit-sharing revenues based on the performance of the ESPs administered by third parties. These revenues are a form of variable consideration included in the ESP transaction price to the extent that it is probable that it will not result in a significant revenue reversal. An estimate of the amount to which we expect to be entitled, subject to various constraints, is recognized upon satisfying the performance obligation of selling the ESP. These constraints include factors that are outside of the company's influence or control and the length of time until settlement. We apply the expected value method, utilizing historical claims and cancellation data from CarMax customers, as well as other qualitative assumptions. This estimate is reassessed each reporting period with changes reflected in other sales and revenues on our consolidated statements of earnings and other assets on our consolidated balance sheets. Profit-sharing payments by the ESP provider begin when the underlying ESPs reach a specified level of claims history. As of February 28, 2019 , we have recognized a long-term contract asset of $25.7 million related to cumulative profit-sharing payments to which we expect to be entitled, which is included in other assets on our consolidated balance sheets.

Third-Party Finance Fees. Customers applying for financing who are not approved or are 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 recognize these fees at the time of sale.

Service Revenues. Service revenue consists of labor and parts income related to vehicle repair service, including repairs of vehicles covered under an ESP we sell or warranty program. Service revenue is recognized at the time the work is completed.

Other Revenues. Other revenues consist primarily of new vehicle sales at our two new car franchise locations and sales of accessories. Revenue in this category is recognized upon transfer of control to the customer.

3. CARMAX AUTO FINANCE

CAF provides financing to qualified retail customers purchasing vehicles from CarMax. CAF provides us the opportunity to capture additional profits, cash flows and sales while managing our reliance on third-party finance sources. Management regularly analyzes CAF's operating results by assessing profitability, the performance of the auto loan receivables including trends in credit losses and delinquencies, and CAF direct expenses. This information is used to assess CAF's performance and make operating decisions including resource allocation.

We typically use securitizations or other funding arrangements to fund loans originated by CAF, as discussed in Note 1(F). 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. 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. In addition, except for auto loan receivables, which are disclosed in Note 4, CAF assets are not separately reported nor do we allocate assets to CAF because such allocation would not be useful to management in making operating decisions.

Components of CAF Income

(In millions)		Years Ended February 28 2019	% [1]		2018	% [1]		2017	% [1]
Interest margin:									
Interest and fee income	**$**	**972.9**	**8.0**	$	856.6	7.6	$	762.0	7.5
Interest expense		**(289.3)**	**(2.4)**		(215.0)	(1.9)		(171.4)	(1.7)
Total interest margin		**683.6**	**5.6**		641.6	5.7		590.6	5.8
Provision for loan losses		**(153.8)**	**(1.3)**		(137.6)	(1.2)		(150.6)	(1.5)
Total interest margin after provision for loan losses		**529.8**	**4.4**		504.0	4.5		440.0	4.3
Total other (expense) income		**(0.4)**	**—**		0.4	—		—	—
Direct expenses:									
Payroll and fringe benefit expense		**(38.3)**	**(0.3)**		(35.4)	(0.3)		(30.8)	(0.3)
Other direct expenses		**(52.4)**	**(0.4)**		(47.8)	(0.4)		(40.2)	(0.4)
Total direct expenses		**(90.7)**	**(0.7)**		(83.2)	(0.7)		(71.0)	(0.7)
CarMax Auto Finance income	**$**	**438.7**	**3.6**	$	421.2	3.8	$	369.0	3.6
Total average managed receivables	**$**	**12,150.2**		$	11,210.8		$	10,158.3	

[1] *Percent of total average managed receivables.*

4. AUTO LOAN RECEIVABLES

Auto loan receivables include amounts due from customers related to retail vehicle sales financed through CAF and are presented net of an allowance for estimated loan losses. We generally use warehouse facilities to fund auto loan receivables originated by CAF until we elect to fund them through an asset-backed term funding transaction. The majority of the auto loan receivables serve as collateral for the related non-recourse notes payable of $12.54 billion as of February 28, 2019 , and $11.64 billion as of February 28, 2018 . See Notes 1(F) and 11 for additional information on securitizations and non-recourse notes payable.

Auto Loan Receivables, Net

(In millions)		As of February 28 2019		2018
Asset-backed term funding	**$**	**10,273.4**	$	9,455.2
Warehouse facilities		**1,877.0**		1,834.0
Overcollateralization [1]		**273.3**		269.4
Other managed receivables [2]		**86.5**		60.3
Total ending managed receivables		**12,510.2**		11,618.9
Accrued interest and fees		**49.6**		43.2
Other		**6.9**		2.2
Less allowance for loan losses		**(138.2)**		(128.6)
Auto loan receivables, net	**$**	**12,428.5**	$	11,535.7

[1] *Represents receivables restricted as excess collateral for the non-recourse funding vehicles.*
[2] *Other managed receivables includes receivables not funded through the non-recourse funding vehicles.*

Credit Quality. When customers apply for financing, CAF's proprietary scoring models rely on the customers' credit history and certain application information to evaluate and rank their risk. We obtain credit histories and other credit data that includes information such as number, age, type of and payment history for prior or existing credit accounts. The application information that is used includes income, collateral value and down payment. The scoring models yield credit grades that represent the relative likelihood of repayment. Customers assigned a grade of "A" are determined to have the highest probability of repayment, and customers assigned a lower grade are determined to have a lower probability of repayment. For loans that are approved, the credit grade influences the terms of the agreement, such as the required loan-to-value ratio and interest rate.

CAF uses a combination of the initial credit grades and historical performance to monitor the credit quality of the auto loan receivables on an ongoing basis. We validate the accuracy of the scoring models periodically. Loan performance is reviewed on a recurring basis to identify whether the assigned grades adequately reflect the customers' likelihood of repayment.

Ending Managed Receivables by Major Credit Grade

	As of February 28			
(In millions)	**2019** [1]	**%** [2]	**2018** [1]	**%** [2]
A	**$ 6,225.6**	**49.8**	$ 5,725.1	49.3
B	**4,488.2**	**35.9**	4,133.8	35.6
C and other	**1,796.4**	**14.3**	1,760.0	15.1
Total ending managed receivables	**$ 12,510.2**	**100.0**	$ 11,618.9	100.0

[1] *Classified based on credit grade assigned when customers were initially approved for financing.*
[2] *Percent of total ending managed receivables.*

Allowance for Loan Losses

	As of February 28			
(In millions)	**2019**	**%** [1]	**2018**	**%** [1]
Balance as of beginning of year	**$ 128.6**	**1.11**	$ 123.6	1.16
Charge-offs	**(274.2)**		(254.4)	
Recoveries	**130.0**		121.8	
Provision for loan losses	**153.8**		137.6	
Balance as of end of year	**$ 138.2**	**1.10**	$ 128.6	1.11

[1] *Percent of total ending managed receivables.*

The allowance for loan losses represents an estimate of the amount of net losses inherent in our portfolio of managed receivables as of the applicable reporting date and expected to become evident during the following 12 months. The allowance is primarily based on the composition of the portfolio of managed receivables, historical loss trends and forecasted forward loss curves. We also take into account recent trends in delinquencies and defaults, recovery rates and the economic environment. The provision for loan losses is the periodic expense of maintaining an adequate allowance.

Past Due Receivables

	As of February 28			
(In millions)	**2019**	**%** [1]	**2018**	**%** [1]
Total ending managed receivables	**$ 12,510.2**	**100.0**	$ 11,618.9	100.0
Delinquent loans:				
31-60 days past due	**$ 276.5**	**2.2**	$ 246.6	2.1
61-90 days past due	**141.4**	**1.1**	116.9	1.0
Greater than 90 days past due	**33.9**	**0.3**	29.7	0.3
Total past due	**$ 451.8**	**3.6**	$ 393.2	3.4

[1] *Percent of total ending managed receivables.*

5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We use derivatives to manage certain risks arising from both our business operations and economic conditions, particularly with regard to issuances of debt. Primary exposures include LIBOR and other rates used as benchmarks in our securitizations and other debt financing. We enter into derivative instruments to manage exposures related to the future known receipt or payment of uncertain cash amounts, the values of which are impacted by interest rates, and designate these derivative instruments as cash flow hedges for accounting purposes. Our derivative instruments are used to manage (i) differences in the amount of our known or expected cash receipts and our known or expected cash payments principally related to the funding of our auto loan receivables, and (ii) exposure to variable interest rates associated with our term loan.

For the derivatives associated with our non-recourse funding vehicles, the effective portion of changes in the fair value is initially recorded in accumulated other comprehensive loss ("AOCL"). For the majority of these derivatives, the amounts are subsequently reclassified into CAF income in the period that the hedged forecasted transaction affects earnings, which occurs as interest expense is recognized on those future issuances of debt. During the next 12 months, we estimate that an additional $1.8 million will be reclassified from AOCL as an increase to CAF income.

As of February 28, 2019 and 2018 , we had interest rate swaps outstanding with a combined notional amount of $2.23 billion and $2.16 billion , respectively, that were designated as cash flow hedges of interest rate risk.

See Note 6 for discussion of fair values of financial instruments and Note 14 for the effect on comprehensive income.

6. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market or, if none exists, the most advantageous market, for the specific asset or liability at the measurement date (referred to as the "exit price"). The fair value should be based on assumptions that market participants would use, including a consideration of nonperformance risk.

We assess the inputs used to measure fair value using the three-tier hierarchy. The hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market.

Level 1 Inputs include unadjusted quoted prices in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets in active markets, quoted prices from identical or similar assets in inactive markets and observable inputs such as interest rates and yield curves.

Level 3 Inputs that are significant to the measurement that are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk).

Our fair value processes include controls that are designed to ensure that fair values are appropriate. Such controls include model validation, review of key model inputs, analysis of period-over-period fluctuations and reviews by senior management.

Valuation Methodologies

Money Market Securities. Money market securities are cash equivalents, which are included in cash and cash equivalents, restricted cash from collections on auto loan receivables and other assets. They consist of highly liquid investments with original maturities of three months or less and are classified as Level 1.

Mutual Fund Investments. Mutual fund investments consist of publicly traded mutual funds that primarily include diversified equity investments in large-, mid- and small-cap domestic and international companies or investment grade debt securities. The investments, which are included in other assets, are held in a rabbi trust established to fund informally our executive deferred compensation plan and are classified as Level 1.

Derivative Instruments. The fair values of our derivative instruments are included in either other current assets, other assets, accounts payable or other liablities. As described in Note 5, as part of our risk management strategy, we utilize derivative instruments to manage differences in the amount of our known or expected cash receipts and our known or expected cash payments principally related to the funding of our auto loan receivables as well as to manage exposure to variable interest rates on our term loan. Our derivatives are not exchange-traded and are over-the-counter customized derivative instruments. All of our derivative exposures are with highly rated bank counterparties.

We measure derivative fair values assuming that the unit of account is an individual derivative instrument and that derivatives are sold or transferred on a stand-alone basis. We estimate the fair value of our derivatives using quotes determined by the derivative counterparties and third-party valuation services. Quotes from third-party valuation services and quotes received from bank counterparties project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates and the contractual terms of the derivative instruments. The models do not require significant judgment and model inputs can typically be observed in a liquid market; however, because the models include inputs other than quoted prices in active markets, all derivatives are classified as Level 2.

Our derivative fair value measurements consider assumptions about counterparty and our own nonperformance risk. We monitor counterparty and our own nonperformance risk and, in the event that we determine that a party is unlikely to perform under terms of the contract, we would adjust the derivative fair value to reflect the nonperformance risk.

Items Measured at Fair Value on a Recurring Basis

	As of February 28, 2019		
(In thousands)	**Level 1**	**Level 2**	**Total**
Assets:			
Money market securities	$ 372,448	$ —	$ 372,448
Mutual fund investments	19,263	—	19,263
Derivative instruments	—	1,844	1,844
Total assets at fair value	$ 391,711	$ 1,844	$ 393,555
Percent of total assets at fair value	99.5%	0.5%	100.0%
Percent of total assets	2.1%	—%	2.1%
Liabilities:			
Derivative instruments	$ —	$ (6,120)	$ (6,120)
Total liabilities at fair value	$ —	$ (6,120)	$ (6,120)
Percent of total liabilities	—%	—%	—%

	As of February 28, 2018		
(In thousands)	**Level 1**	**Level 2**	**Total**
Assets:			
Money market securities	$ 276,894	$ —	$ 276,894
Mutual fund investments	19,429	—	19,429
Derivative instruments	—	12,127	12,127
Total assets at fair value	$ 296,323	$ 12,127	$ 308,450
Percent of total assets at fair value	96.1%	3.9%	100.0%
Percent of total assets	1.7%	0.1%	1.8%
Liabilities:			
Derivative instruments	$ —	$ (99)	$ (99)
Total liabilities at fair value	$ —	$ (99)	$ (99)
Percent of total liabilities	—%	—%	—%

There were no transfers between Levels 1 and 2 for the years ended February 28, 2019 and 2018 . As of February 28, 2019 and 2018 , we had no Level 3 assets.

Fair Value of Financial Instruments

The carrying value of our cash and cash equivalents, accounts receivable, other restricted cash deposits and accounts payable approximates fair value due to the short-term nature and/or variable rates associated with these financial instruments. Auto loan receivables are presented net of an allowance for estimated loan losses. We believe that the carrying value of our revolving credit facility and term loan approximates fair value due to the variable rates associated with these obligations. The fair value of our senior unsecured notes, which are not carried at fair value on our consolidated balance sheets, was determined using Level 2 inputs based on quoted market prices. The carrying value and fair value of the senior unsecured notes as of February 28, 2019 and 2018 , respectively, are as follows:

(In thousands)	As of February 28, 2019	As of February 28, 2018
Carrying value	**$ 500,000**	$ 500,000
Fair value	**$ 488,590**	$ 492,163

7. PROPERTY AND EQUIPMENT

	As of February 28	
(In thousands)	2019	2018
Land	**$ 789,125**	$ 722,173
Land held for development	**81,100**	77,145
Buildings	**2,211,929**	2,081,785
Leasehold improvements	**247,121**	215,114
Furniture, fixtures and equipment	**671,166**	600,739
Construction in progress	**125,010**	134,354
Total property and equipment	**4,125,451**	3,831,310
Less accumulated depreciation and amortization	**1,297,393**	1,164,249
Property and equipment, net	**$ 2,828,058**	$ 2,667,061

Land held for development represents land owned for potential store growth. Depreciation expense was $169.8 million in fiscal 2019 , $158.6 million in fiscal 2018 and $140.7 million in fiscal 2017 .

8. CANCELLATION RESERVES

We recognize revenue for EPP products, on a net basis, at the time of sale. We also record a reserve for estimated contract cancellations. Cancellations of these services may result from early termination by the customer, or default or prepayment on the finance contract. 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.

Cancellation Reserves

	As of February 28	
(In millions)	2019	2018
Balance as of beginning of year	**$ 105.2**	$ 108.2
Cancellations	**(66.3)**	(65.7)
Provision for future cancellations	**63.9**	62.7
Balance as of end of year	**$ 102.8**	$ 105.2

The current portion of estimated cancellation reserves is recognized as a component of accrued expenses and other current liabilities with the remaining amount recognized in other liabilities. As of February 28, 2019 and 2018 , the current portion of cancellation reserves was $55.6 million and $56.0 million , respectively.

9. INCOME TAXES

Tax Reform. The Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") was enacted on December 22, 2017, and, among other changes, reduced the federal statutory tax rate from 35.0% to 21.0%. In accordance with U.S. GAAP for income taxes, as well as SEC Staff Accounting Bulletin No. 118 ("SAB 118"), the company made a reasonable estimate of the impacts of the 2017 Tax Act and recorded this estimate in its results for the year ended February 28, 2018. SAB 118 allows for a measurement period of up to one year, from the date of enactment, to complete the company's accounting for the impacts of the 2017 Tax Act. As of February 28, 2019 , our analysis under SAB 118 is complete and resulted in no material adjustments to the provisional amounts recorded as of February 28, 2018.

The provision for income taxes and effective tax rate for fiscal 2018 included a $32.7 million increase in tax expense related to the revaluation of our net deferred tax asset at the lower federal statutory tax rate. This increase was partially offset by a $20.8 million benefit from the reduction in the federal statutory tax rate in the fourth quarter of fiscal 2018.

Income Tax Provision

	Years Ended February 28		
(In thousands)	**2019**	**2018**	**2017**
Current:			
Federal	**$ 218,497**	$ 276,597	$ 332,466
State	**49,596**	41,892	44,645
Total	**268,093**	318,489	377,111
Deferred:			
Federal	**3,601**	81,486	4,098
State	**(1,301)**	(479)	(1,774)
Total	**2,300**	81,007	2,324
Income tax provision	**$ 270,393**	$ 399,496	$ 379,435

Effective Income Tax Rate Reconciliation

	Years Ended February 28		
	2019	**2018**	**2017**
Federal statutory income tax rate	**21.0 %**	32.7 %	35.0 %
State and local income taxes, net of federal benefit	**3.4**	3.1	2.7
2017 Tax Act	**(0.1)**	3.1	—
Share-based compensation	**(0.3)**	(1.3)	—
Nondeductible and other items	**0.7**	0.2	0.1
Credits	**(0.4)**	(0.2)	(0.1)
Effective income tax rate	**24.3 %**	37.6 %	37.7 %

The 2017 Tax Act above includes the following impacts for fiscal 2018:

- Revaluation of deferred taxes that existed on December 22, 2017, the enactment date of the 2017 Tax Act.
- Deferred taxes that were created after December 22, 2017. These items were recognized in fiscal 2018 at the federal statutory tax rate of 32.7% but will reverse at the newly enacted 21% federal rate.

Temporary Differences Resulting in Deferred Tax Assets and Liabilities

(In thousands)	As of February 28 2019	2018
Deferred tax assets:		
Accrued expenses and other	**$ 42,331**	$ 37,362
Partnership basis	**71,455**	63,670
Share-based compensation	**48,818**	45,744
Capital loss carry forward	**677**	682
Total deferred tax assets	**163,281**	147,458
Less: valuation allowance	**(677)**	(682)
Total deferred tax assets after valuation allowance	**162,604**	146,776
Deferred tax liabilities:		
Prepaid expenses	**16,960**	16,157
Property and equipment	**59,537**	43,663
Inventory	**17,279**	18,625
Profit-sharing revenues	**6,599**	—
Derivatives	**883**	5,075
Total deferred tax liabilities	**101,258**	83,520
Net deferred tax asset	**$ 61,346**	$ 63,256

Except for amounts for which a valuation allowance has been provided, we believe it is more likely than not that the results of future operations and the reversals of existing deferred taxable temporary differences will generate sufficient taxable income to realize the deferred tax assets. The valuation allowance as of February 28, 2019 , relates to capital loss carryforwards that are not more likely than not to be utilized prior to their expiration.

Reconciliation of Unrecognized Tax Benefits

(In thousands)	Years Ended February 28 2019	2018	2017
Balance at beginning of year	**$ 28,685**	$ 29,955	$ 26,771
Increases for tax positions of prior years	**2,035**	—	2,651
Decreases for tax positions of prior years	**(266)**	(607)	(216)
Increases based on tax positions related to the current year	**2,498**	3,342	4,380
Settlements	**(44)**	(304)	(16)
Lapse of statute	**(2,638)**	(3,701)	(3,615)
Balance at end of year	**$ 30,270**	$ 28,685	$ 29,955

As of February 28, 2019 , we had $30.3 million of gross unrecognized tax benefits, $10.7 million of which, if recognized, would affect our effective tax rate. It is reasonably possible that the amount of the unrecognized tax benefit will increase or decrease during the next 12 months; however, we do not expect the change to have a significant effect on our results of operations, financial condition or cash flows. As of February 28, 2018 , we had $28.7 million of gross unrecognized tax benefits, $9.6 million of which, if recognized, would affect our effective tax rate. As of February 28, 2017 , we had $30.0 million of gross unrecognized tax benefits, $9.4 million of which, if recognized, would affect our effective tax rate.

Our continuing practice is to recognize interest and penalties related to income tax matters in SG&A expenses. Our accrual for interest and penalties was $3.2 million , $2.8 million and $2.7 million as of February 28, 2019 , 2018 and 2017 , respectively.

CarMax is subject to U.S. federal income tax as well as income tax of multiple states and local jurisdictions. With a few insignificant exceptions, we are no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to fiscal 2016.

10. BENEFIT PLANS

(A) Retirement Benefit Plans

We have two frozen noncontributory defined benefit plans: our pension plan (the "pension plan") and our unfunded, nonqualified plan (the "restoration plan"), which restores retirement benefits for certain associates who are affected by Internal Revenue Code limitations on benefits provided under the pension plan. No additional benefits have accrued under these plans since they were frozen; however, we have a continuing obligation to fund the pension plan and will continue to recognize net periodic pension expense for both plans for benefits earned prior to being frozen. We use a fiscal year end measurement date for both the pension plan and the restoration plan.

Benefit Plan Information

	As of February 28					
	Pension Plan		Restoration Plan		Total	
(In thousands)	2019	2018	2019	2018	2019	2018
Plan assets	**$ 166,020**	$ 156,827	**$ —**	$ —	**$ 166,020**	$ 156,827
Projected benefit obligation	**231,677**	230,861	**11,082**	11,041	**242,759**	241,902
Funded status recognized	**$ (65,657)**	$ (74,034)	**$ (11,082)**	$ (11,041)	**$ (76,739)**	$ (85,075)
Amounts recognized in the consolidated balance sheets:						
Current liability	**$ —**	$ —	**$ (500)**	$ (485)	**$ (500)**	$ (485)
Noncurrent liability	**(65,657)**	(74,034)	**(10,582)**	(10,556)	**(76,239)**	(84,590)
Net amount recognized	**$ (65,657)**	$ (74,034)	**$ (11,082)**	$ (11,041)	**$ (76,739)**	$ (85,075)

	Years Ended February 28								
	Pension Plan			Restoration Plan			Total		
(In thousands)	2019	2018	2017	2019	2018	2017	2019	2018	2017
Total net pension (benefit) expense	**$ (681)**	$ 207	$ 330	**$ 474**	$ 468	$ 481	**$ (207)**	$ 675	$ 811
Total net actuarial loss [(1)]	**$ 4,478**	$ 2,880	$ 17	**$ 82**	$ 376	$ 228	**$ 4,560**	$ 3,256	$ 245

[(1)] *Changes recognized in Accumulated Other Comprehensive Loss.*

The projected benefit obligation ("PBO") will change primarily due to interest cost and total net actuarial (gain) loss, and plan assets will change primarily as a result of the actual return on plan assets. Benefit payments, which reduce the PBO and plan assets, were not material in fiscal 2019 or 2018 ; employer contributions, which increase plan assets, were $10.3 million in fiscal 2019 and $6.0 million in fiscal 2018. The net actuarial (gain) loss in a fiscal year is recognized in accumulated other comprehensive loss and may later be recognized as a component of future pension expense. In fiscal 2020 , we anticipate that $1.8 million in estimated actuarial losses of the pension plan will be amortized from accumulated other comprehensive loss. We do not anticipate that any appreciable estimated actuarial losses will be amortized from accumulated other comprehensive loss for the restoration plan.

Benefit Obligations. The accumulated benefit obligation ("ABO") and PBO represent the obligations of the benefit plans for past service as of the measurement date. ABO is the present value of benefits earned to date with benefits computed based on current service and compensation levels. PBO is ABO increased to reflect expected future service and increased compensation levels. As a result of the freeze of plan benefits under our pension and restoration plans, the ABO and PBO balances are equal to one another at all subsequent dates.

Funding Policy. For the pension plan, we contribute amounts sufficient to meet minimum funding requirements as set forth in the employee benefit and tax laws, plus any additional amounts as we may determine to be appropriate. We do no t expect to make any contributions to the pension plan in fiscal 2020 . We expect the pension plan to make benefit payments of approximately $4.7 million for each of the next three fiscal years, and $5.8 million for each of the subsequent two fiscal years. For the non-funded restoration plan, we contribute an amount equal to the benefit payments, which we expect to be approximately $0.6 million for each of the next five fiscal years.

Assumptions Used to Determine Benefit Obligations

	As of February 28			
	Pension Plan		Restoration Plan	
	2019	2018	2019	2018
Discount rate [(1)]	**4.20%**	4.10%	**4.20%**	4.10%

Assumptions Used to Determine Net Pension Expense

	Years Ended February 28					
	Pension Plan			Restoration Plan		
	2019	2018	2017	2019	2018	2017
Discount rate [(1)]	**4.10%**	4.25%	4.50%	**4.10%**	4.25%	4.50%
Expected rate of return on plan assets	**7.75%**	7.75%	7.75%	**—%**	—%	—%

(1) *For the restoration plan, the discount rate presented is applied to the pre-2004 annuity amounts and to post-2004 lump sum amounts for fiscal 2019 and fiscal 2018. A rate of 4.50% is assumed for post-2004 lump sum amounts paid from the plan for fiscal 2017 .*

Assumptions. Underlying both the calculation of the PBO and the net pension expense are actuarial calculations of each plan's liability. These calculations use participant-specific information such as salary, age and years of service, as well as certain assumptions, the most significant being the discount rate, rate of return on plan assets and mortality rate. We evaluate these assumptions at least once a year and make changes as necessary.

The discount rate used for retirement benefit plan accounting reflects the yields available on high-quality, fixed income debt instruments. For our plans, we review high quality corporate bond indices in addition to a hypothetical portfolio of corporate bonds with maturities that approximate the expected timing of the anticipated benefit payments.

To determine the expected long-term return on plan assets, we consider the current and anticipated asset allocations, as well as historical and estimated returns on various categories of plan assets. We apply the estimated rate of return to a market-related value of assets, which reduces the underlying variability in the asset values. The use of expected long-term rates of return on pension plan assets could result in recognized asset returns that are greater or less than the actual returns of those pension plan assets in any given year. Over time, however, the expected long-term returns are anticipated to approximate the actual long-term returns, and therefore, result in a pattern of income and expense recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns, which are a component of unrecognized actuarial gains/losses, are recognized over the average life expectancy of all plan participants.

Fair Value of Plan Assets and Fair Value Hierarchy

	As of February 28	
(In thousands)	2019	2018
Mutual funds (Level 1):		
Equity securities	**$ 106,367**	$ 100,422
Equity securities – international	**20,481**	19,467
Fixed income securities	**38,038**	36,693
Collective funds (Level 2):		
Short-term investments	**1,219**	322
Investment payables, net	**(85)**	(77)
Total	**$ 166,020**	$ 156,827

Plan Assets. Our pension plan assets are held in trust and a fiduciary committee sets the investment policies and strategies. Long-term strategic investment objectives include achieving reasonable returns while prudently balancing risk and return, and controlling costs. We target allocating approximately 75% of plan assets to equity and equity-related instruments and approximately 25% to fixed income securities. Equity securities are currently composed of mutual funds that include highly diversified investments in large-, mid- and small-cap companies located in the United States and internationally. The fixed income securities are composed of mutual funds that include investments in debt securities, corporate bonds, mortgage-backed securities and other debt obligations primarily in the United States. We do not expect any plan assets to be returned to us during fiscal 2020 .

The fair values of the plan's assets are provided by the plan's trustee and the investment managers. Within the fair value hierarchy (see Note 6), the mutual funds are classified as Level 1 as quoted active market prices for identical assets are used to measure fair value. The collective funds are public investment vehicles valued using a NAV. The collective funds may be liquidated with minimal restrictions and are classified as Level 2.

(B) Retirement Savings 401(k) Plan

We sponsor a 401(k) plan for all associates meeting certain eligibility criteria. The plan contains a company matching contribution as well as an additional discretionary company-funded contribution to those associates meeting certain age and service requirements. The total cost for company contributions was $42.3 million in fiscal 2019 , $39.7 million in fiscal 2018 and $32.8 million in fiscal 2017 .

(C) Retirement Restoration Plan

We sponsor a non-qualified retirement plan for certain senior executives who are affected by Internal Revenue Code limitations on benefits provided under the Retirement Savings 401(k) Plan. Under this plan, these associates may continue to defer portions of their compensation for retirement savings. We match the associates' contributions at the same rate provided under the 401(k) plan, and also may provide an annual discretionary company-funded contribution under the same terms of the 401(k) plan. This plan is unfunded with lump sum payments to be made upon the associate's retirement. The total cost for this plan was not significant in fiscal 2019 , fiscal 2018 and fiscal 2017 .

(D) Executive Deferred Compensation Plan

We sponsor an unfunded nonqualified deferred compensation plan to permit certain eligible associates to defer receipt of a portion of their compensation to a future date. This plan also includes a restorative company contribution designed to compensate the plan participants for any loss of company contributions under the Retirement Savings 401(k) Plan and the Retirement Restoration Plan due to a reduction in their eligible compensation resulting from deferrals into the Executive Deferred Compensation Plan. The total cost for this plan was not significant in fiscal 2019 , fiscal 2018 and fiscal 2017 .

11. DEBT

		As of February 28	
(In thousands) **Debt Description** [(1)]	**Maturity Date**	**2019**	**2018**
Revolving credit facility [(2)]	August 2020	**$ 366,529**	$ 197,627
Term loan [(2)]	August 2020	**300,000**	300,000
3.86% Senior notes	April 2023	**100,000**	100,000
4.17% Senior notes	April 2026	**200,000**	200,000
4.27% Senior notes	April 2028	**200,000**	200,000
Financing and capital lease obligations	Various [(3)]	**527,406**	500,363
Non-recourse notes payable	Various dates through August 2025	**12,535,405**	11,644,615
Total debt		**14,229,340**	13,142,605
Less: current portion		**(398,339)**	(365,554)
Less: unamortized debt issuance costs		**(24,676)**	(24,239)
Long-term debt, net		**$ 13,806,325**	$ 12,752,812

(1) *Interest is payable monthly, with the exception of our senior notes, which are payable semi-annually.*
(2) *Borrowings accrue interest at variable rates based on LIBOR, the federal funds rate, or the prime rate, depending on the type of borrowing.*
(3) *See Note 15 for additional information on financing and capital lease obligations.*

Revolving Credit Facility. Borrowings under our $1.20 billion unsecured revolving credit facility (the "credit facility") are available for working capital and general corporate purposes. We pay a commitment fee on the unused portions of the available funds. Borrowings under the credit facility are either due "on demand" or at maturity depending on the type of borrowing. Borrowings with "on demand" repayment terms are presented as short-term debt while amounts due at maturity are presented as long-term debt as no repayments are expected to be made within the next 12 months. As of February 28, 2019 , the unused capacity of $833.5 million was fully available to us.

The weighted average interest rate on outstanding short-term and long-term debt was 3.50% in fiscal 2019 , 2.49% in fiscal 2018 and 1.74% in fiscal 2017 .

Term Loan. The interest rate on our term loan was 3.51% as of February 28, 2019 , and the loan was classified as long-term debt as no repayments are scheduled to be made within the next 12 months. Borrowings under the term loan are available for working capital and general corporate purposes.

Senior Notes. Our senior unsecured notes were classified as long-term debt as no repayments are scheduled to be made within the next 12 months. Borrowings under these notes are available for working capital and general corporate purposes.

Financing and Capital Lease Obligations. Financing obligations relate primarily to stores subject to sale-leaseback transactions that did not qualify for sale accounting. The financing obligations were structured at varying interest rates and generally have initial lease terms ranging from 15 to 20 years with payments made monthly. We have not entered into any new sale-leaseback transactions since fiscal 2009. In the event the leases are modified or extended beyond their original lease term, the related obligation is increased based on the present value of the revised future minimum lease payments, with a corresponding increase to the assets subject to these transactions. Upon modification, the amortization of the obligation is reset, resulting in more of the lease payments being applied to interest expense in the initial years following the modification. Capital lease obligations relate primarily to leases of buildings and transportation equipment and have initial terms ranging from 5 to 30 years with payments made monthly. Payments on both financing and capital lease obligations are recognized as interest expense and a reduction of the obligations. See Note 15 for information on future minimum lease obligations.

Non-Recourse Notes Payable. The non-recourse notes payable relate to auto loan receivables funded through non-recourse funding vehicles. The timing of principal payments on the non-recourse notes payable is based on the timing of principal collections and defaults on the related auto loan receivables. The current portion of non-recourse notes payable represents principal payments that are due to be distributed in the following period.

Notes payable related to our asset-backed term funding transactions accrue interest predominantly at fixed rates and have scheduled maturities through August 2025 , but may mature earlier, depending upon repayment rate of the underlying auto loan receivables.

Information on our funding vehicles of non-recourse notes payable as of February 28, 2019 are as follows:

(in billions)		**Capacity**
Warehouse facilities		
August 2019 expiration	$	**1.40**
September 2019 expiration		**0.15**
February 2020 expiration		**1.95**
Combined warehouse facility limit	$	**3.50**
Unused capacity	$	**1.62**
Non-recourse notes payable outstanding:		
Warehouse facilities	$	**1.88**
Asset-backed term funding transactions		**10.66**
Non-recourse notes payable	$	**12.54**

We enter into warehouse facility agreements for one-year terms and generally renew the agreements annually. The return requirements of warehouse facility investors could fluctuate significantly depending on market conditions. At renewal, the cost, structure and capacity of the facilities could change. These changes could have a significant impact on our funding costs.

See Notes 1(F) and 4 for additional information on the related auto loan receivables.

Capitalized Interest. We capitalize interest in connection with the construction of certain facilities. For fiscal 2019 , fiscal 2018 and fiscal 2017 , we capitalized interest of $6.4 million , $6.9 million , and $11.2 million , respectively.

Financial Covenants. The credit facility, term loan and senior note agreements contain representations and warranties, conditions and covenants. We must also meet financial covenants in conjunction with certain financing obligations. The agreements governing our non-recourse funding vehicles contain representations and warranties, financial covenants and performance triggers.

As of February 28, 2019 , we were in compliance with all financial covenants and our non-recourse funding vehicles were in compliance with the related performance triggers.

12. STOCK AND STOCK-BASED INCENTIVE PLANS

(A) Preferred Stock

Under the terms of our Articles of Incorporation, the board of directors may determine the rights, preferences and terms of our authorized but unissued shares of preferred stock. We have authorized 20,000,000 shares of preferred stock, $20 par value. No shares of preferred stock are currently outstanding.

(B) Share Repurchase Program

As of February 28, 2019 , a total of $2.75 billion of board authorizations for repurchases of our common stock were outstanding, with no expiration date. At that date, $2.11 billion remained available for repurchase.

Common Stock Repurchases

	Years Ended February 28		
	2019	**2018**	**2017**
Number of shares repurchased *(in thousands)*	**13,634.7**	8,897.2	10,262.5
Average cost per share	**$ 66.22**	$ 64.46	$ 54.34
Available for repurchase, as of end of year *(in millions)*	**$ 2,113.9**	$ 1,016.8	$ 1,590.4

(C) Stock Incentive Plans

We maintain long-term incentive plans for management, certain employees and the nonemployee members of our board of directors. The plans allow for the granting of equity-based compensation awards, including nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock awards, stock- and cash-settled restricted stock units, stock grants or a combination of awards. To date, we have no t awarded any incentive stock options.

As of February 28, 2019 , a total of 55,200,000 shares of our common stock had been authorized to be issued under the long-term incentive plans. The number of unissued common shares reserved for future grants under the long-term incentive plans was 5,568,092 as of that date.

The majority of associates who receive share-based compensation awards primarily receive cash-settled restricted stock units. Senior management and other key associates receive awards of nonqualified stock options, stock-settled restricted stock units and/or restricted stock awards. Nonemployee directors receive awards of nonqualified stock options, stock grants, stock-settled restricted stock units and/or restricted stock awards. Excluding stock grants, all share-based compensation awards, including any associated dividend rights, are subject to forfeiture.

Nonqualified Stock Options. Nonqualified stock options are awards that allow the recipient to purchase shares of our common stock at a fixed price. Stock options are granted at an exercise price equal to the fair market value of our common stock on the grant date. The stock options generally vest annually in equal amounts over 4 years . These options expire 7 years after the date of the grant.

Cash-Settled Restricted Stock Units. Also referred to as restricted stock units, or RSUs, these are awards that entitle the holder to a cash payment equal to the fair market value of a share of our common stock for each unit granted. Conversion generally occurs at the end of a three -year vesting period. However, the cash payment per RSU will not be greater than 200% or less than 75% of the fair market value of a share of our common stock on the grant date. The initial grant date fair values are based on the volume-weighted average prices of our common stock on the grant dates. RSUs are liability awards and do not have voting rights.

Stock-Settled Market Stock Units. Also referred to as market stock units, or MSUs, these are restricted stock unit awards with market conditions granted to eligible key associates that are converted into between zero and two shares of common stock for each unit granted. Conversion generally occurs at the end of a three-year vesting period. The conversion ratio is calculated by dividing the average closing price of our stock during the final 40 trading days of the three -year vesting period by our stock price on the grant date, with the resulting quotient capped at two . This quotient is then multiplied by the number of MSUs granted to yield the number of shares awarded. The grant date fair values are determined using a Monte-Carlo simulation and are based on the expected market price of our common stock on the vesting date and the expected number of converted common shares. MSUs do not have voting rights.

Other Share-Based Incentives

Stock-Settled Performance Stock Units . Also referred to as performance stock units, or PSUs, these are restricted stock unit awards with performance conditions granted to eligible key associates that are converted into between zero and two shares of common stock for each unit granted. Conversion generally occurs at the end of a three -year vesting period. The conversion ratio is based on the company reaching certain target levels set by the board of directors for cumulative three-year earnings before interest and taxes or cumulative three-year pretax diluted earnings per share at the end of the three-year period, with the resulting quotient subject to meeting a minimum 25% threshold and capped at 200% . This quotient is then multiplied by the number of PSUs granted to yield the number of shares awarded. The grant date fair values are based on the volume-weighted average prices of our common stock on the grant dates. PSUs do not have voting rights. As of February 28, 2019 , 138,967 units were outstanding at a weighted average grant date fair value per share of $54.80 .

Stock-Settled Deferred Stock Units . Also referred to as deferred stock units, or DSUs, these are restricted stock unit awards granted to non-employee members of our board of directors that are converted into one share of common stock for each unit granted. Conversion occurs at the end of the one -year vesting period unless the director has exercised the option to defer conversion until separation of service to the company. The grant date fair values are based on the volume-weighted average prices of our common stock on the grant dates. DSUs have no voting rights. As of February 28, 2019 , 24,712 units were outstanding at a grant date fair value of $72.58 .

Restricted Stock Awards . Restricted stock awards, or RSAs, are awards of our common stock that are subject to specified restrictions that generally lapse after a one - to three -year period from date of grant. The grant date fair values are based on the volume-weighted average prices of our common stock on the grant dates. Participants holding restricted stock are entitled to vote on matters submitted to holders of our common stock for a vote. As of February 28, 2019 , there were no units outstanding.

Employee Stock Purchase Plan . We sponsor an employee stock purchase plan for all associates meeting certain eligibility criteria. We have authorized up to 8,000,000 shares of common stock with a total of 2,802,346 shares remaining available for issuance under the plan as of February 28, 2019 . Associate contributions are limited to 10% of eligible compensation, up to a maximum $7,500 per year. For each $1.00 contributed to the plan by associates, we match $0.15 . Shares are acquired through open-market purchases. We purchased 185,856 shares at an average price per share of $67.66 during fiscal 2019, 177,433 shares at an average price per share of $65.11 during fiscal 2018 and 198,053 shares at an average price per share of $55.46 during fiscal 2017.

(D) Share-Based Compensation

Composition of Share-Based Compensation Expense

	Years Ended February 28		
(In thousands)	**2019**	2018	2017
Cost of sales	**$ 2,952**	$ 2,552	$ 4,446
CarMax Auto Finance income	**3,804**	3,167	3,200
Selling, general and administrative expenses	**69,928**	57,701	85,393
Share-based compensation expense, before income taxes	**$ 76,684**	$ 63,420	$ 93,039

Composition of Share-Based Compensation Expense – By Grant Type

	Years Ended February 28		
(In thousands)	**2019**	2018	2017
Nonqualified stock options	**$ 29,992**	$ 26,461	$ 37,547
Cash-settled restricted stock units (RSUs)	**29,141**	23,539	38,239
Stock-settled market stock units (MSUs)	**12,683**	10,032	12,035
Other share-based incentives:			
Stock-settled performance stock units (PSUs)	**1,733**	648	2,074
Stock-settled deferred stock units (DSUs)	**1,155**	—	—
Restricted stock (RSAs)	**307**	1,199	1,701
Employee stock purchase plan	**1,673**	1,541	1,443
Total other share-based incentives	**4,868**	3,388	5,218
Share-based compensation expense, before income taxes	**$ 76,684**	$ 63,420	$ 93,039

Unrecognized Share- Based Compensation Expense – By Grant Type

(Costs in millions)	As of February 28, 2019 Unrecognized Compensation Costs	Weighted Average Remaining Recognition Life (Years)
Nonqualified stock options	$ 37.6	2.1
Stock-settled market stock units	13.3	1.3
Other share-based incentives:		
Stock-settled performance stock units	1.1	0.6
Stock-settled deferred stock units	0.7	0.4
Total other share-based incentives	1.8	0.6
Total	$ 52.7	1.8

We recognize compensation expense for stock options, MSUs, PSUs, DSUs and RSAs on a straight-line basis (net of estimated forfeitures) over the requisite service period, which is generally the vesting period of the award. The PSU expense is adjusted for any change in management's assessment of the performance target level that is probable of being achieved. The variable expense associated with RSUs is recognized over their vesting period (net of estimated forfeitures) and is calculated based on the volume-weighted average price of our common stock on the last trading day of each reporting period.

The total costs for matching contributions for our employee stock purchase plan are included in share-based compensation expense. There were no capitalized share-based compensation costs as of or for the years ended February 28, 2019 , February 28, 2018 or February 28, 2017 .

Stock Option Activity

(Shares and intrinsic value in thousands)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding as of February 28, 2018	7,762	$ 54.59		
Options granted	1,745	63.20		
Options exercised	(1,314)	44.26		
Options forfeited or expired	(324)	60.91		
Outstanding as of February 28, 2019	7,869	$ 57.96	4.3	$ 48,893
Exercisable as of February 28, 2019	3,664	$ 55.71	3.2	$ 34,395

Stock Option Information

	Years Ended February 28 2019	2018	2017
Options granted	**1,745,497**	1,955,117	2,345,528
Weighted average grant date fair value per share	**$ 18.75**	$ 16.15	$ 14.25
Cash received from options exercised *(in millions)*	**$ 58.1**	$ 73.5	$ 59.9
Intrinsic value of options exercised *(in millions)*	**$ 37.1**	$ 57.1	$ 52.6
Realized tax benefits *(in millions)*	**$ 10.2**	$ 21.8	$ 21.2

For stock options, the fair value of each award is estimated as of the date of grant using a binomial valuation model. In computing the value of the option, the binomial model considers characteristics of fair-value option pricing that are not available for consideration under a closed-form valuation model (for example, the Black-Scholes model), such as the contractual term of the option, the probability that the option will be exercised prior to the end of its contractual life and the probability of termination or retirement of the option holder. For this reason, we believe that the binomial model provides a fair value that is more representative of actual experience and future expected experience than the value calculated using a closed-form model. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the recipients of share-based awards.

Assumptions Used to Estimate Option Values

	Years Ended February 28		
	2019	2018	2017
Dividend yield	**0.0%**	0.0%	0.0%
Expected volatility factor [(1)]	**26.1% - 34.1%**	27.3% - 34.2%	29.3% - 34.8%
Weighted average expected volatility	**29.1%**	29.7%	30.7%
Risk-free interest rate [(2)]	**1.7% - 3.0%**	0.7% - 2.3%	0.1% - 2.4%
Expected term (in years) [(3)]	**4.6**	4.6	4.6

(1) *Measured using historical daily price changes of our stock for a period corresponding to the term of the options and the implied volatility derived from the market prices of traded options on our stock.*
(2) *Based on the U.S. Treasury yield curve at the time of grant.*
(3) *Represents the estimated number of years that options will be outstanding prior to exercise.*

Cash-Settled Restricted Stock Unit Activity

(Units in thousands)	Number of Units	Weighted Average Grant Date Fair Value
Outstanding as of February 28, 2018	1,460	$ 59.36
Stock units granted	630	$ 63.07
Stock units vested and converted	(343)	$ 72.93
Stock units cancelled	(138)	$ 58.33
Outstanding as of February 28, 2019	1,609	$ 58.00

Cash-Settled Restricted Stock Unit Information

	Years Ended February 28		
	2019	2018	2017
Stock units granted	**629,942**	628,095	632,261
Initial weighted average grant date fair value per share	**$ 63.07**	$ 58.39	$ 51.63
Payments (before payroll tax withholdings) upon vesting *(in millions)*	**$ 21.0**	$ 26.6	$ 23.5
Realized tax benefits *(in millions)*	**$ 5.8**	$ 10.2	$ 9.5

Expected Cash Settlement Range Upon Restricted Stock Unit Vesting

	As of February 28, 2019	
(In thousands)	Minimum [(1)]	Maximum [(1)]
Fiscal 2020	$ 19,121	$ 50,988
Fiscal 2021	21,665	57,773
Fiscal 2022	23,851	63,602
Total expected cash settlements	$ 64,637	$ 172,363

(1) *Net of estimated forfeitures.*

Stock-Settled Market Stock Unit Activity

(Units in thousands)	Number of Units		Weighted Average Grant Date Fair Value
Outstanding as of February 28, 2018	419	$	74.04
Stock units granted	206	$	82.09
Stock units vested and converted	(97)	$	89.42
Stock units cancelled	(19)	$	73.73
Outstanding as of February 28, 2019	509	$	74.36

Stock-Settled Market Stock Unit Information

	Years Ended February 28					
		2019		2018		2017
Stock units granted		**205,868**		163,618		174,211
Weighted average grant date fair value per share	**$**	**82.09**	$	74.09	$	64.30
Realized tax benefits *(in millions)*	**$**	**1.4**	$	7.0	$	5.3

13. NET EARNINGS PER SHARE

Basic and Dilutive Net Earnings Per Share Reconciliations

(In thousands except per share data)	Years Ended February 28					
		2019		2018		2017
Net earnings	**$**	**842,413**	$	664,112	$	626,970
Weighted average common shares outstanding		**174,463**		182,660		190,343
Dilutive potential common shares:						
Stock options		**1,028**		1,390		1,379
Stock-settled restricted stock units		**393**		420		493
Weighted average common shares and dilutive potential common shares		**175,884**		184,470		192,215
Basic net earnings per share	**$**	**4.83**	$	3.64	$	3.29
Diluted net earnings per share	**$**	**4.79**	$	3.60	$	3.26

Certain options to purchase shares of common stock were outstanding and not included in the calculation of diluted net earnings per share because their inclusion would have been antidilutive. On a weighted average basis, for fiscal 2019 , fiscal 2018 and fiscal 2017 , options to purchase 4,009,566 shares, 2,993,200 shares and 2,874,788 shares of common stock, respectively, were not included.

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in Accumulated Other Comprehensive Loss By Component

(In thousands, net of income taxes)	Net Unrecognized Actuarial Losses	Net Unrecognized Hedge Gains (Losses)	Total Accumulated Other Comprehensive Loss
Balance as of February 29, 2016	$ (56,470)	$ (13,726)	$ (70,196)
Other comprehensive (loss) income before reclassifications	(19)	5,991	5,972
Amounts reclassified from accumulated other comprehensive loss	968	6,701	7,669
Other comprehensive income	949	12,692	13,641
Balance as of February 28, 2017	(55,521)	(1,034)	(56,555)
Other comprehensive (loss) income before reclassifications	(2,546)	12,381	9,835
Amounts reclassified from accumulated other comprehensive loss	1,175	1,813	2,988
Other comprehensive (loss) income	(1,371)	14,194	12,823
Amounts transferred from accumulated other comprehensive loss to retained earnings [(1)]	(11,605)	1,025	(10,580)
Balance as of February 28, 2018	(68,497)	14,185	(54,312)
Other comprehensive loss before reclassifications	(3,459)	(6,703)	(10,162)
Amounts reclassified from accumulated other comprehensive loss	1,478	(5,014)	(3,536)
Other comprehensive loss	(1,981)	(11,717)	(13,698)
Balance as of February 28, 2019	**$ (70,478)**	**$ 2,468**	**$ (68,010)**

[(1)] *Reclassification due to the adoption of ASU 2018-02 in fiscal 2018.*

Changes In and Reclassifications Out of Accumulated Other Comprehensive Loss

(In thousands)	Years Ended February 28 2019	2018	2017
Retirement Benefit Plans (Note 10):			
Actuarial loss arising during the year	**$ (4,560)**	$ (3,256)	$ (246)
Tax benefit	**1,101**	710	227
Actuarial loss arising during the year, net of tax	**(3,459)**	(2,546)	(19)
Actuarial loss amortization reclassifications recognized in net pension expense:			
Cost of sales	**812**	749	637
CarMax Auto Finance income	**51**	46	37
Selling, general and administrative expenses	**1,086**	1,020	872
Total amortization reclassifications recognized in net pension expense	**1,949**	1,815	1,546
Tax expense	**(471)**	(640)	(578)
Amortization reclassifications recognized in net pension expense, net of tax	**1,478**	1,175	968
Net change in retirement benefit plan unrecognized actuarial losses, net of tax	**(1,981)**	(1,371)	949
Cash Flow Hedges (Note 5):			
Effective portion of changes in fair value	**(9,103)**	17,953	9,878
Tax benefit (loss)	**2,400**	(5,572)	(3,887)
Effective portion of changes in fair value, net of tax	**(6,703)**	12,381	5,991
Reclassifications to CarMax Auto Finance income	**(6,809)**	3,009	11,038
Tax benefit (expense)	**1,795**	(1,196)	(4,337)
Reclassification of hedge (gains) losses, net of tax	**(5,014)**	1,813	6,701
Net change in cash flow hedge unrecognized gains, net of tax	**(11,717)**	14,194	12,692
Total other comprehensive (loss) income, net of tax	**$ (13,698)**	$ 12,823	$ 13,641

Changes in the funded status of our retirement plans and the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive loss. The cumulative balances are net of deferred taxes of $21.4 million as of February 28, 2019 and $16.6 million as of February 28, 2018 .

15. LEASE COMMITMENTS

Our leases primarily consist of land or land and building leases related to CarMax store locations. Our lease obligations are based upon contractual minimum rates. Most leases provide that we pay taxes, maintenance, insurance and operating expenses applicable to the premises. The initial term for most real property leases is typically 5 to 20 years , with renewal options of 5 to 20 years , and may include rent escalation clauses. For financing and capital lease obligations, a portion of the periodic lease payments is recognized as interest expense and the remainder reduces the obligations. For operating leases, rent is recognized on a straight-line basis over the lease term, including scheduled rent increases and rent holidays. Rent expense for all operating leases was $56.9 million in fiscal 2019 , $52.4 million in fiscal 2018 and $49.4 million in fiscal 2017 . See Note 11 for additional information on financing and capital lease obligations.

Future Minimum Lease Obligations

(In thousands)		Capital Leases [(1)]		Financing Obligations [(1)]		Operating Lease Commitments [(1)]
		As of February 28, 2019				
Fiscal 2020	$	5,139	$	50,500	$	55,295
Fiscal 2021		6,055		45,681		52,142
Fiscal 2022		6,185		44,942		48,886
Fiscal 2023		6,288		44,467		46,235
Fiscal 2024		5,186		44,589		45,067
Fiscal 2025 and thereafter		11,445		838,729		595,047
Total minimum lease payments		40,298	$	1,068,908	$	842,672
Less amounts representing interest		(8,518)				
Present value of net minimum capital lease payments	$	31,780				

[(1)] *Excludes taxes, insurance and other costs payable directly by us. These costs vary from year to year and are incurred in the ordinary course of business.*

16. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information:

(In thousands)		2019		2018		2017
		Years Ended February 28				
Cash paid for interest	**$**	**74,204**	$	69,431	$	55,139
Cash paid for income taxes	**$**	**220,669**	$	353,977	$	371,227
Non-cash investing and financing activities:						
(Decrease) increase in accrued capital expenditures	**$**	**(3,066)**	$	1,220	$	(6,280)
Increase in financing and capital lease obligations	**$**	**35,848**	$	12,051	$	90,517

17. COMMITMENTS AND CONTINGENCIES

(A) Litigation

CarMax entities are defendants in four proceedings asserting wage and hour claims with respect to CarMax sales consultants and non-exempt employees in California. The asserted claims include failure to pay minimum wage, provide meal periods and rest breaks, pay statutory/contractual wages, reimburse for work-related expenses and provide accurate itemized wage statements; unfair competition; and Private Attorney General Act claims. CarMax entities were defendants in a fifth proceeding asserting these claims, which was dismissed after the completion of fiscal 2019. On September 4, 2015, Craig Weiss et al., v. CarMax Auto Superstores California, LLC, and CarMax Auto Superstores West Coast, Inc., a putative class action, was filed in the Superior Court of California, County of Placer. The Weiss lawsuit seeks civil penalties, fines, cost of suit, and the recovery of attorneys' fees. On June 29, 2016, Ryan Gomez et al. v. CarMax Auto Superstores California, LLC, and CarMax Auto Superstores West Coast, Inc., a putative class action, was filed in the Superior Court of the State of California, Los Angeles. The Gomez lawsuit seeks declaratory relief, unspecified damages, restitution, statutory penalties, interest, cost and attorneys' fees. On October 31, 2017, Joshua Sabanovich v. CarMax Superstores California, LLC et. al., a putative class action, was filed in the Superior Court of California, County of Stanislaus. The Sabanovich lawsuit seeks unspecified damages, restitution, statutory penalties, interest, cost and attorneys' fees. On November 21, 2018, Derek Mcelhannon et al v. CarMax Auto Superstores California, LLC and CarMax Auto Superstores West Coast, Inc., a putative class action, was filed in Superior Court of California, County of Alameda. On February 1, 2019, the Mcelhannon lawsuit was removed to the U.S District Court, Northern District of California, San Francisco Division. The Mcelhannon lawsuit seeks unspecified damages, restitution, statutory and/or civil penalties, interest, cost and attorneys' fees. We are unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable outcome in the above matters.

On September 7, 2016, James Rowland v. CarMax Auto Superstores California, LLC, and CarMax Auto Superstores West Coast, Inc., a putative class action asserting wage and hour claims, was filed in the U.S. District Court, Eastern District of California, Sacramento Division. On April 11, 2019, the court dismissed the Rowland lawsuit, including the class claims, and compelled arbitration of the plaintiff's claims on an individualized basis.

On April 25, 2017 and October 11, 2018, the company met with representatives from multiple California municipality district attorney offices as part of an informal inquiry by those offices into the handling, storage and disposal of certain types of hazardous waste at our store locations in those municipalities. We are unable to make a reasonable estimate of the amount or range of loss that could result from an unfavorable outcome in these matters.

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

(B) Other Matters

In accordance with the terms of real estate lease agreements, we generally agree to indemnify the lessor from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities and repairs to leased property upon termination of the lease. Additionally, in accordance with the terms of agreements entered into for the sale of properties, we generally agree to indemnify the buyer from certain liabilities and costs arising subsequent to the date of the sale, including environmental liabilities and liabilities resulting from the breach of representations or warranties made in accordance with the agreements. We do not have any known material environmental commitments, contingencies or other indemnification issues arising from these arrangements.

As part of our customer service strategy, we guarantee the used vehicles we sell at retail with at least a 30 -day limited warranty. A vehicle in need of repair within this period will be repaired free of charge. As a result, each vehicle sold has an implied liability associated with it. Accordingly, based on historical trends, we record a provision for estimated future repairs during the guarantee period for each vehicle sold. The liability for this guarantee was $7.4 million as of February 28, 2019 and $6.1 million as of February 28, 2018 , and is included in accrued expenses and other current liabilities.

At various times we may have certain purchase obligations that are enforceable and legally binding primarily related to real estate purchases, advertising and third-party outsourcing services. As of February 28, 2019 , we have material purchase obligations of $169.9 million , of which $81.0 million are expected to be fulfilled in fiscal 2020 .

18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In thousands, except per share data)		1st Quarter 2019		2nd Quarter 2019		3rd Quarter 2019		4th Quarter 2019		Fiscal Year 2019
Net sales and operating revenues	**$**	**4,792,592**	**$**	**4,766,035**	**$**	**4,295,871**	**$**	**4,318,602**	**$**	**18,173,100**
Gross profit	**$**	**661,340**	**$**	**650,636**	**$**	**569,237**	**$**	**599,378**	**$**	**2,480,591**
CarMax Auto Finance income	**$**	**115,593**	**$**	**109,667**	**$**	**109,725**	**$**	**103,705**	**$**	**438,690**
Selling, general and administrative expenses	**$**	**438,234**	**$**	**453,554**	**$**	**409,520**	**$**	**428,967**	**$**	**1,730,275**
Net earnings	**$**	**238,656**	**$**	**220,890**	**$**	**190,311**	**$**	**192,556**	**$**	**842,413**
Net earnings per share:										
Basic	**$**	**1.34**	**$**	**1.25**	**$**	**1.09**	**$**	**1.14**	**$**	**4.83**
Diluted	**$**	**1.33**	**$**	**1.24**	**$**	**1.09**	**$**	**1.13**	**$**	**4.79**

(In thousands, except per share data)		1st Quarter 2018		2nd Quarter 2018		3rd Quarter 2018		4th Quarter 2018 [(1)]		Fiscal Year 2018
Net sales and operating revenues	$	4,542,334	$	4,386,640	$	4,107,017	$	4,084,218	$	17,120,209
Gross profit	$	648,938	$	604,005	$	539,188	$	536,728	$	2,328,859
CarMax Auto Finance income	$	109,363	$	107,936	$	102,810	$	101,073	$	421,182
Selling, general and administrative expenses	$	403,503	$	405,062	$	399,672	$	408,814	$	1,617,051
Net earnings	$	211,702	$	181,424	$	148,840	$	122,146	$	664,112
Net earnings per share:										
Basic	$	1.14	$	0.99	$	0.82	$	0.68	$	3.64
Diluted	$	1.13	$	0.98	$	0.81	$	0.67	$	3.60

(1) During the fourth quarter of fiscal 2018, net earnings were reduced by $11.9 million in connection with the 2017 Tax Act. See Note 9. Net earnings were also reduced by $8.0 million , before tax, due to a one-time discretionary bonus paid to eligible associates.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures ("disclosure controls") that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure controls are also designed to ensure that this information is accumulated and communicated to management, including the chief executive officer ("CEO") and the chief financial officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we evaluated the effectiveness of the design and operation of our disclosure controls. This evaluation was performed under the supervision and with the participation of management, including the CEO and CFO. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls were effective as of the end of the period.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended February 28, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management's annual report on internal control over financial reporting is included in Item 8. Consolidated Financial Statements and Supplementary Data, of this Form 10-K and is incorporated herein by reference.

Item 9B. Other Information.

None.

PART III

With the exception of the information incorporated by reference from our 2019 Proxy Statement in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K, our 2019 Proxy Statement is not to be deemed filed as a part of this Form 10-K.

Item 10. Directors, Executive Officers and Corporate Governance.

The information concerning our executive officers required by this Item is incorporated by reference to the section titled "Executive Officers of the Company" included in Part I of this Annual Report on Form 10-K.

The information concerning our directors required by this Item is incorporated by reference to the section titled "Proposal One: Election of Directors" in our 2019 Proxy Statement.

The information concerning the audit committee of our board of directors and the audit committee financial expert required by this Item is incorporated by reference to the information included in the sub-section titled "Corporate Governance – Board Committees" in our 2019 Proxy Statement.

The information concerning compliance with Section 16(a) of the Exchange Act required by this Item is incorporated by reference to the sub-section titled "CarMax Share Ownership – Section 16(a) Beneficial Ownership Reporting Compliance" in our 2019 Proxy Statement.

The information concerning our code of ethics ("Code of Business Conduct") for senior management required by this Item is incorporated by reference to the sub-section titled "Corporate Governance – Overview" in our 2019 Proxy Statement.

Item 11. Executive Compensation.

The information required by this Item is incorporated by reference to the sections titled "Compensation Discussion and Analysis," "Compensation and Personnel Committee Report" and "Compensation Tables" in our 2019 Proxy Statement. Additional information required by this Item is incorporated by reference to the section titled "Director Compensation" in our 2019 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item concerning equity compensation plans is incorporated by reference to the subsection titled "Proposal Four: Approval of the Amended and Restated CarMax, Inc. 2002 Stock Incentive Plan - Equity Compensation Plan Information" in our 2019 Proxy Statement.

The information required by this Item concerning security ownership of certain beneficial owners and management is incorporated by reference to the section titled "CarMax Share Ownership" in our 2019 Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information required by this Item is incorporated by reference to the sub-section titled "Corporate Governance – Related Person Transactions" in our 2019 Proxy Statement.

The information required by this Item concerning director independence is incorporated by reference to the sub-section titled "Corporate Governance – Independence" in our 2019 Proxy Statement.

Item 14. Principal Accountant Fees and Services.

The information required by this Item is incorporated by reference to the section titled "Auditor Fees and Pre-Approval Policy" in our 2019 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed as part of this report:

1. **Financial Statements.** All financial statements as set forth under Item 8 of this Form 10-K.

2. **Financial Statement Schedules.** Schedules have been omitted because they are not applicable, are not required or the information required to be set forth therein is included in the Consolidated Financial Statements and Notes thereto.

3. **Exhibits:**

3.1	CarMax, Inc. Amended and Restated Articles of Incorporation, effective June 24, 2013, filed as Exhibit 3.1 to CarMax's Current Report on Form 8-K, filed June 28, 2013 (File No. 1-31420), is incorporated by this reference.
3.2	CarMax, Inc. Bylaws, as amended and restated September 1, 2016, filed as Exhibit 3.1 to CarMax's Current Report on Form 8-K, filed September 1, 2016 (File No. 1-31420), is incorporated by this reference.
10.1	CarMax, Inc. Severance Agreement for Executive Officer, dated September 1, 2016, between CarMax, Inc. and William D. Nash, filed as Exhibit 10.1 to CarMax's Current Report on Form 8-K, filed September 1, 2016 (File No. 1-31420) is incorporated by this reference. *
10.2	CarMax, Inc. Severance Agreement for Executive Officer, dated January 6, 2015, between CarMax, Inc. and Thomas J. Folliard, filed as Exhibit 10.2 to CarMax's Quarterly Report on Form 10-Q, filed January 8, 2015 (File No. 1-31420) is incorporated by this reference. *
10.3	CarMax, Inc. Amendment to Severance Agreement for Executive Officer, dated August 31, 2016, between CarMax, Inc. and Thomas J. Folliard, filed as Exhibit 10.2 to CarMax's Current Report on Form 8-K, filed September 1, 2016 (File No. 1-31420) is incorporated by this reference. *

10.4	CarMax, Inc. Severance Agreement for Executive Officer, dated January 3, 2017, between CarMax, Inc. and Thomas W. Reedy, filed as Exhibit 10.2 to CarMax's Quarterly Report on Form 10-Q, filed January 6, 2017 (File No. 1-31420) is incorporated by this reference. *
10.5	CarMax, Inc. Severance Agreement for Executive Officer, dated January 3, 2017, between CarMax, Inc. and William C. Wood, Jr., filed as Exhibit 10.3 to CarMax's Quarterly Report on Form 10-Q, filed January 6, 2017 (File No. 1-31420) is incorporated by this reference. *
10.6	CarMax, Inc. Severance Agreement for Executive Officer, dated January 3, 2017, between CarMax, Inc. and Edwin J. Hill, filed as Exhibit 10.4 to CarMax's Quarterly Report on Form 10-Q, filed January 6, 2017 (File No. 1-31420) is incorporated by this reference. *
10.7	CarMax, Inc. Severance Agreement for Executive Officer, dated January 6, 2015, between CarMax, Inc. and Eric M. Margolin, filed as Exhibit 10.6 to CarMax's Quarterly Report on Form 10-Q, filed January 8, 2015 (File No. 1-31420) is incorporated by this reference. *
10.8	CarMax, Inc. Benefit Restoration Plan, as amended and restated, effective June 30, 2011, filed as Exhibit 10.1 to CarMax's Current Report on Form 8-K, filed June 30, 2011 (File No. 1-31420), is incorporated by this reference. *
10.9	CarMax, Inc. Retirement Restoration Plan, as amended and restated, effective January 1, 2017, filed as Exhibit 10.6 to CarMax's Quarterly Report on Form 10-Q, filed July 7, 2016 (File No. 1-31420), is incorporated by this reference. *
10.10	CarMax, Inc. Executive Deferred Compensation Plan, as amended and restated, effective June 30, 2011, filed as Exhibit 10.3 to CarMax's Current Report on Form 8-K, filed June 30, 2011 (File No. 1-31420), is incorporated by this reference. *
10.11	CarMax, Inc. Non-Employee Directors Stock Incentive Plan, as amended and restated June 24, 2008, filed as Exhibit 10.1 to CarMax's Quarterly Report on Form 10-Q, filed July 10, 2008 (File No. 1-31420), is incorporated by this reference. *
10.12	CarMax, Inc. 2002 Stock Incentive Plan, as amended and restated June 28, 2016, filed as Exhibit 10.1 to CarMax's Current Report on Form 8-K, filed July 1, 2016 (File No. 1-31420), is incorporated by this reference. *
10.13	CarMax, Inc. Annual Performance-Based Bonus Plan, as amended and restated June 25, 2012, filed as Exhibit 10.2 to CarMax's Current Report on Form 8-K, filed June 29, 2012 (File No. 1-31420), is incorporated by this reference. *
10.14	CarMax, Inc. 2002 Employee Stock Purchase Plan, as amended and restated June 23, 2009, filed as Exhibit 10.1 to CarMax's Quarterly Report on Form 10-Q, filed July 9, 2009 (File No. 1-31420), is incorporated by this reference.
10.15	Credit Agreement, dated August 24, 2015, among CarMax Auto Superstores, Inc., CarMax, Inc., certain subsidiaries of CarMax named therein, Bank of America, N.A., as a lender and as administrative agent, and the other lending institutions named therein, filed as Exhibit 10.1 to CarMax's Current Report on Form 8-K, filed August 26, 2015 (File No. 1-31420), is incorporated by this reference.
10.16	Amended Notice of Stock Option Grant between CarMax, Inc. and Thomas J. Folliard, dated August 31, 2016, filed as Exhibit 10.3 to CarMax's Current Report on Form 8-K, filed September 1, 2016 (File No. 1-31420), is incorporated by reference. *
10.17	Amended Notice of Stock Option Grant between CarMax, Inc. and Thomas J. Folliard, dated August 31, 2016, filed as Exhibit 10.4 to CarMax's Current Report on Form 8-K, filed September 1, 2016 (File No. 1-31420), is incorporated by reference. *
10.18	Amended Notice of Market Stock Unit Grant between CarMax, Inc. and Thomas J. Folliard, dated August 31, 2016, filed as Exhibit 10.5 to CarMax's Current Report on Form 8-K, filed September 1, 2016 (File No. 1-31420), is incorporated by reference. *
10.19	Amended Notice of Stock Option Grant between CarMax, Inc. and Thomas J. Folliard, dated August 31, 2016, filed as Exhibit 10.6 to CarMax's Current Report on Form 8-K, filed September 1, 2016 (File No. 1-31420), is incorporated by reference. *
10.20	Amended Notice of Performance Stock Unit Grant between CarMax, Inc. and Thomas J. Folliard, dated August 31, 2016, filed as Exhibit 10.7 to CarMax's Current Report on Form 8-K, filed September 1, 2016 (File No. 1-31420), is incorporated by reference. *

10.21	Form of Notice of Restricted Stock Grant between CarMax, Inc. and certain executive officers effective March 24, 2016, filed as Exhibit 10.1 to CarMax's Current Report on Form 8-K, filed March 25, 2016 (File No. 1-31420), is incorporated by this reference. *
10.22	Form of Notice of Cash-Settled Restricted Stock Unit Grant between CarMax Inc. and certain named and other executive officers, effective March 24, 2016, filed as Exhibit 10.2 to CarMax's Current Report on Form 8-K, filed March 25, 2016 (File No. 1-31420), is incorporated by reference. *
10.23	Form of Notice of Stock Option Grant between CarMax, Inc. and certain named and other executive officers, effective March 24, 2016, filed as Exhibit 10.3 to CarMax's Current Report on Form 8-K, filed March 25, 2016 (File No. 1-31420), is incorporated by reference. *
10.24	Form of Notice of Performance Stock Unit Grant between CarMax, Inc. and certain named and other executive officers, effective March 24, 2016, filed as Exhibit 10.4 to CarMax's Current Report on Form 8-K, filed March 25, 2016 (File No. 1-31420), is incorporated by reference. *
10.25	Form of Notice of Stock Option Grant between CarMax, Inc. and certain named and other executive officers, effective January 26, 2015, filed as Exhibit 10.1 to CarMax's Current Report on Form 8-K, filed February 13, 2015 (File No. 1-31420), is incorporated by reference. *
10.26	Form of Notice of Market Stock Unit Grant between CarMax, Inc. and certain named and other executive officers, effective January 26, 2015, filed as Exhibit 10.2 to CarMax's Current Report on Form 8-K, filed February 13, 2015 (File No. 1-31420), is incorporated by reference. *
10.27	Form of Notice of Performance Stock Unit Grant between CarMax, Inc. and certain named and other executive officers, effective January 26, 2015, filed as Exhibit 10.3 to CarMax's Current Report on Form 8-K, filed February 13, 2015 (File No. 1-31420), is incorporated by reference. *
10.28	Form of Notice of Restricted Stock Grant between CarMax, Inc. and certain non-employee directors of the CarMax, Inc. board of directors, filed as Exhibit 10.1 to CarMax's Quarterly Report on Form 10-Q, filed October 8, 2014 (File No. 1-31420), is incorporated by this reference. *
10.29	Form of Notice of Stock Option Grant between CarMax, Inc. and certain named and other executive officers, effective January 27, 2014, filed as Exhibit 10.1 to CarMax's Current Report on Form 8-K, filed January 31, 2014 (File No. 1-31420), is incorporated by reference. *
10.30	Form of Notice of Market Stock Unit Grant between CarMax, Inc. and certain named and other executive officers, effective January 27, 2014, filed as Exhibit 10.2 to CarMax's Current Report on Form 8-K, filed January 31, 2014 (File No. 1-31420), is incorporated by reference. *
10.31	Form of Notice of Stock Option Grant between CarMax, Inc. and certain named and other executive officers, effective December 21, 2011, filed as Exhibit 10.1 to CarMax's Current Report on Form 8-K, filed December 23, 2011 (File No. 1-31420), is incorporated by reference. *
10.32	Form of Notice of Market Stock Unit Grant between CarMax, Inc. and certain named and other executive officers, effective December 21, 2011, filed as Exhibit 10.2 to CarMax's Current Report on Form 8-K, filed December 23, 2011 (File No. 1-31420), is incorporated by reference. *
10.33	Form of Notice of Restricted Stock Unit Grant between CarMax Inc. and certain named and other executive officers, effective December 21, 2011, filed as Exhibit 10.3 to CarMax's Current Report on Form 8-K, filed December 23, 2011 (File No. 1-31420), is incorporated by reference. *
10.34	Form of Notice of Stock Option Grant between CarMax, Inc. and certain named and other executive officers, effective October 18, 2010, filed as Exhibit 10.1 to CarMax's Current Report on Form 8-K, filed October 22, 2010 (File No. 1-31420), is incorporated by this reference. *
10.35	Form of Notice of Market Stock Unit Grant between CarMax, Inc. and certain named and other executive officers, effective October 18, 2010, filed as Exhibit 10.2 to CarMax's Current Report on Form 8-K, filed October 22, 2010 (File No. 1-31420), is incorporated by this reference. *
10.36	Form of Notice of Stock Option Grant between CarMax, Inc. and certain named and other executive officers, effective January 1, 2009, filed as Exhibit 10.1 to CarMax's Quarterly Report on Form 10-Q, filed January 8, 2009 (File No. 1-31420), is incorporated by this reference. *
10.37	Form of Directors Stock Option Grant Agreement between CarMax, Inc. and certain non-employee directors of the CarMax, Inc. board of directors, filed as Exhibit 10.3 to CarMax's Quarterly Report on Form 10-Q, filed July 10, 2008 (File No. 1-31420), is incorporated by this reference. *
10.38	Form of Notice of Stock Option Grant between CarMax, Inc. and certain named and other executive officers, filed as Exhibit 10.18 to CarMax's Annual Report on Form 10-K, filed April 25, 2008 (File No. 1-31420), is incorporated by this reference. *

10.39	Form of Notice of Stock Option Grant between CarMax, Inc. and certain named and other executive officers, filed as Exhibit 10.2 to CarMax's Current Report on Form 8-K, filed October 20, 2006 (File No. 1-31420), is incorporated by this reference. *
10.40	Form of Directors Stock Option Grant Agreement between CarMax, Inc. and certain non-employee directors of the CarMax, Inc. board of directors, filed as Exhibit 10.5 to CarMax's Current Report on Form 8-K, filed April 28, 2006 (File No. 1-31420), is incorporated by this reference. *
10.41	Form of Incentive Award Agreement between CarMax, Inc. and certain named executive officers, filed as Exhibit 10.16 to CarMax's Annual Report on Form 10-K, filed May 13, 2005 (File No. 1-31420), is incorporated by this reference. *
10.42	Form of Incentive Award Agreement between CarMax, Inc. and certain executive officers, filed as Exhibit 10.17 to CarMax's Annual Report on Form 10-K, filed May 13, 2005 (File No. 1-31420), is incorporated by this reference. *
10.43	Form of Incentive Award Agreement between CarMax, Inc. and certain non-employee directors of the CarMax, Inc. board of directors, filed as Exhibit 10.18 to CarMax's Annual Report on Form 10-K, filed May 13, 2005 (File No. 1-31420), is incorporated by this reference. *
10.44	Form of Amendment to Incentive Award Agreement between CarMax, Inc. and certain non-employee directors of the CarMax, Inc. board of directors, filed as Exhibit 10.19 to CarMax's Annual Report on Form 10-K, filed May 13, 2005 (File No. 1-31420), is incorporated by this reference. *
10.45	Form of Stock Grant Notice Letter from CarMax, Inc. to certain non-employee directors of the CarMax, Inc. board of directors, filed as Exhibit 10.20 to CarMax's Annual Report on Form 10-K, filed May 13, 2005 (File No. 1-31420), is incorporated by this reference. *
10.46	CarMax, Inc. Annual Performance-Based Bonus Plan, dated April 24, 2018, filed as Exhibit 10.46 to CarMax's Annual Report on Form 10-K, filed April 24, 2018 (File No. 1-31420), is incorporated by this reference. *
10.47	Form of Notice of Restricted Stock Unit Grant between CarMax, Inc. and certain non-employee directors of the CarMax, Inc. board of directors, filed as Exhibit 10.47 to CarMax's Annual Report on Form 10-K filed April 24, 2018 (File No. 1-31420), is incorporated by this reference. *
10.48	Form of Notice of Restricted Stock Unit Grant between CarMax, Inc. and certain non-employee directors of the CarMax, Inc. board of directors, filed as Exhibit 10.1 to CarMax's Quarterly Report on Form 10-Q filed January 8, 2019 (File No. 1-31420), is incorporated by this reference. *
10.49	Consulting Agreement, dated June 27, 2018, between CarMax, Inc. and William C. Wood Jr., filed as Exhibit 10.1 to CarMax's Current Report on Form 8-K, filed June 29, 2018 (File No. 1-31420), is incorporated by this reference.*
10.50	Form of Notice of Performance Stock Unit Grant between CarMax, Inc. and certain non-employee directors of the CarMax, Inc. board of directors, filed herewith. *
10.51	CarMax, Inc. Severance Agreement for Executive Officer, dated April 23, 2017, between CarMax, Inc. and James Lyski, filed herewith. *
21.1	CarMax, Inc. Subsidiaries, filed herewith.
23.1	Consent of KPMG LLP, filed herewith.
24.1	Powers of Attorney, filed herewith.
31.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a), filed herewith.
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a), filed herewith
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, filed herewith.
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, filed herewith.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Indicates management contract, compensatory plan or arrangement of the company required to be filed as an exhibit.

Certain instruments defining rights of holders of long-term debt of the company are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Upon request, the company agrees to furnish to the Securities and Exchange Commission copies of such instruments.

Item 16. Form 10-K Summary.

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CarMax, Inc.

By:	/s/ WILLIAM D. NASH	By:	/s/ THOMAS W. REEDY
	William D. Nash		**Thomas W. Reedy**
	President and Chief Executive Officer		**Executive Vice President and Chief Financial Officer**
	April 19, 2019		**April 19, 2019**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ WILLIAM D. NASH	/s/ SHIRA GOODMAN *
William D. Nash	**Shira Goodman**
President, Chief Executive Officer and Director	**Director**
April 19, 2019	**April 19, 2019**
/s/ THOMAS W. REEDY	/s/ ROBERT J. HOMBACH *
Thomas W. Reedy	**Robert J. Hombach**
Executive Vice President and Chief Financial Officer	**Director**
April 19, 2019	**April 19, 2019**
/s/ JILL A. LIVESAY	/s/ DAVID W. MCCREIGHT *
Jill A. Livesay	**David W. McCreight**
Vice President and Chief Accounting Officer	**Director**
April 19, 2019	**April 19, 2019**
/s/ PETER J. BENSEN *	/s/ PIETRO SATRIANO *
Peter J. Bensen	**Pietro Satriano**
Director	**Director**
April 19, 2019	**April 19, 2019**
/s/ RONALD E. BLAYLOCK *	/s/ MARCELLA SHINDER *
Ronald E. Blaylock	**Marcella Shinder**
Director	**Director**
April 19, 2019	**April 19, 2019**
/s/ SONA CHAWLA *	/s/ MITCHELL D. STEENROD *
Sona Chawla	**Mitchell D. Steenrod**
Director	**Director**
April 19, 2019	**April 19, 2019**
/s/ THOMAS J. FOLLIARD *	/s/ WILLIAM R. TIEFEL *
Thomas J. Folliard	**William R. Tiefel**
Director	**Director**
April 19, 2019	**April 19, 2019**

*By:	/s/ THOMAS W. REEDY
	Thomas W. Reedy
	Attorney-In-Fact

The original powers of attorney authorizing William D. Nash and Thomas W. Reedy, or either of them, to sign this annual report on behalf of certain directors and officers of the company are included as Exhibit 24.1.

EXHIBIT 10.50

CARMAX, INC.
NOTICE OF PERFORMANCE STOCK UNIT GRANT

[Date]

____

____

____

Dear __________:

The Board of Directors of CarMax, Inc. (the "Company") wants to provide you with an opportunity to share in the success of our Company. Accordingly, I am pleased to inform you that, as of _________________ (the "Grant Date"), the Compensation and Personnel Committee of the Board of Directors of the Company (the "Committee") exercised its authority pursuant to the CarMax, Inc. 2002 Stock Incentive Plan, as amended and restated (the "Plan") and granted you Performance Stock Units of the Company (the "Performance Stock Units") as set forth herein.

The Performance Stock Units are a form of Restricted Stock Units that are being awarded pursuant to Section 6 of the Plan and are subject to the provisions of the Plan. The Committee administers the Plan. The terms of the Plan are incorporated into this Notice of Performance Stock Unit Grant (the "Notice of Grant") and in the case of any conflict between the Plan and this Notice of Grant, the terms of the Plan shall control. All capitalized terms not defined herein shall have the meaning given to them in the Plan. Please refer to the Plan for certain conditions not set forth in this Notice of Grant. Additionally, a copy of a Prospectus for the Plan, which describes material terms of the Plan, can be found on The CarMax Way. Copies of the Prospectus, the Plan and the Company's annual report to shareholders on Form 10-K for fiscal year 20__ are available from the Company's corporate secretary at (804) 747-0422.

For purposes of this Notice of Grant, the term "Performance Term" shall mean the period commencing on ____________ and ending on ____________.

Number of Performance Stock Units: ______

A. Vesting

Except as otherwise provided in this Notice of Grant, all of the Performance Stock Units earned pursuant to the Performance Calculation, as set forth and defined in Exhibit 1, will vest and become nonforfeitable, if at all, on _______________ (the "Vesting Date"), provided you continue to be employed by the Company or one of its Subsidiaries from the Grant Date until the Vesting Date.

No Performance Stock Units may vest after the Vesting Date and all unvested Performance Stock Units on the Vesting Date will terminate and be completely forfeited.

If prior to the Vesting Date, your employment with the Company and its Subsidiaries terminates for any reason other than those described in Sections B.1 , B.2 or B.3 , then the Performance Stock Units subject to this Notice of Grant shall terminate and be completely forfeited on the date of such termination of your employment. To the extent that you do not vest in any Performance Stock Units, all interest in such units and the related shares of Company Stock shall be forfeited. You shall have no right or interest in any Performance Stock Unit or related share of Company Stock that is forfeited. Prior to payment, the Performance Stock Units are not transferable by you by means of sale, assignment, exchange, pledge or otherwise.

B. Additional Vesting and Forfeiture Provisions

1. Termination Without Cause or for Good Reason . If prior to the Vesting Date: (a) the Company terminates your employment with the Company and its Subsidiaries for any reason other than for Cause (as defined in Section B.4), or (b) you have an effective severance or employment agreement with the Company or one of its Subsidiaries and you terminate your employment for "Good Reason" (as defined in such agreement), if applicable, then:

   (x) if your employment terminates on or after the Grant Date but prior to the first anniversary of the Grant Date, all of your Performance Stock Units will be immediately forfeited, effective as of the date of your termination;

   (y) if your employment terminates on or after the first anniversary of the Grant Date but prior to the second anniversary of the Grant Date, the Performance Stock Units earned during year one of the Performance Term (as determined pursuant to the Performance Calculation) will become immediately vested and nonforfeitable, and your remaining Performance Stock Units will be immediately forfeited, effective as of the date of your termination; and

   (z) if your employment terminates on or after the second anniversary of the Grant Date but prior to the Vesting Date, the Performance Stock Units earned during years one and two of the Performance Term (as determined pursuant to the Performance Calculation) will become immediately vested and nonforfeitable, and your remaining Performance Stock Units will be immediately forfeited, effective as of the date of your termination.

2. Death or Disability . If you die or become Disabled prior to the Vesting Date, the number of Performance Stock Units set forth above will become immediately vested and nonforfeitable, effective as of the date of your death or Disability.

3. Retirement . If prior to the Vesting Date: (a) your employment with the Company and its Subsidiaries terminates, (b) such termination is not for Cause, not due to your death or Disability, and not otherwise covered by Section B.1 , and (c) as of the date of the termination you have: (i) attained 55 years of age and completed ten years or more of continuous employment with the Company or its Subsidiaries; (ii) attained 62 years of age and completed seven years or more of continuous employment with the Company or its Subsidiaries; or (iii) attained 65 years of age and completed five years or more of continuous employment with the Company or its Subsidiaries; then all of your Performance Stock Units will become immediately vested and nonforfeitable, and will be paid on the Vesting Date subject to the Performance Calculation.

4. Termination For Cause . Upon termination of your employment with the Company or one of its Subsidiaries for Cause, and notwithstanding anything in Section B to the contrary, your Performance Stock Units will immediately and automatically without any action on the part of you or the Company, be forfeited, effective as of the date of your termination. For purposes of this Notice of Grant, "Cause" shall mean the following: (a) if you have an effective severance or employment agreement with the Company or one of its Subsidiaries with a definition of "Cause," then "Cause" shall have the meaning set forth in your employment or severance agreement; or (b) if you do not have an effective severance or employment agreement with the Company or one of its Subsidiaries with a definition of "Cause," then "Cause" shall mean that the Company or one of its Subsidiaries has any reason to believe any of the following: (i) you have committed fraud, misappropriation of funds or property, embezzlement or other similar acts of dishonesty; (ii) you have been convicted of a felony or other crime involving moral turpitude (or pled nolo contendere thereto); (iii) you have used, possessed or distributed any illegal drug; (iv) you have committed any misconduct that may subject the Company or one of its Subsidiaries to criminal or civil liability; (v) you have breached your duty of loyalty to the Company or one of its Subsidiaries, including, without limitation, the misappropriation of any of the Company's or its Subsidiaries' corporate opportunities; (vi) you have committed a serious violation or violations of any Company policy or procedure; (vii) you refuse to follow the lawful instructions of any Company management; (viii) you have committed any material misrepresentation in the employment application process; (ix) you have committed deliberate actions, including neglect or failure to perform the job, which are contrary to the best interest of the Company or one of its Subsidiaries; or (x) you have continually failed to perform substantially your duties with the Company or one of its Subsidiaries.

5. Change in Full-Time Employment Status . In the event that your employment with the Company or one of its Subsidiaries changes from full-time to part-time for any reason prior to the Vesting Date, and notwithstanding the terms of Section B.3 , your Performance Stock Units will be immediately forfeited, effective as of the date of the change. Employees on authorized leave (as determined under the Company's or its Subsidiary's authorized leave policy) will not be considered as having terminated merely by reason of the leave.

C. Payment

1. Payment Schedule . Payment for your vested Performance Stock Units shall be made in the number of shares of Company Stock, if any, determined in accordance with Exhibit 1 , following the earliest to occur of the following events (the "Payment Date"): (a) the Vesting Date, (b) the date of your death, or (c) the date you become Disabled. Such payment shall be made within 60 days following the Payment Date.

2. Expiration upon Payment . Upon each issuance or transfer of shares of Company Stock in accordance with this Notice of Grant, the portion of the Performance Stock Units attributable to such issuance or transfer shall be extinguished and such number of Performance Stock Units will not be considered to be held by you for any purpose.

D. No Shareholder Rights

The Performance Stock Units shall not represent an equity security of the Company and shall not carry any voting or dividend rights. However, you will have the right to receive payments equivalent to dividends as set forth below. You are an unsecured general creditor of the Company with respect to any payment relating to vested Performance Stock Units.

E. Dividend Equivalent Rights

You shall accumulate dividend equivalent rights on each Performance Stock Unit in an amount equal to the dividends paid, if any, with respect to a share of Company Stock on each date that a dividend is paid on the Company Stock from the Grant Date to the Payment Date. The dividend equivalent rights shall be converted into additional Performance Stock Units based on the Fair Market Value of a share of Company Stock on the date the dividend is paid and shall accumulate and be paid in additional shares of Company Stock if and when the payment for the corresponding Performance Stock Unit is made. Such additional Performance Stock Units shall be subject to the same Performance Calculation and forfeiture restrictions as apply to the Performance Stock Unit to which they relate and shall be converted into shares of Company Stock using the same Performance Calculation, as applicable.

F. Tax Withholding

The Company or its Subsidiary may withhold from your Performance Stock Units or payments under Section C the amount of taxes required by any federal, state, or local government to be withheld or otherwise deducted and paid with respect to the vesting and payment of your Performance Stock Units ("Tax Withholdings"), including without limitation, the Federal Insurance Contributions Act ("FICA") tax imposed and the income tax withholding related to such FICA amounts. At its discretion, the Company or its Subsidiary may require you to pay any Tax Withholdings and withhold any payments, in whole or in part, until the Company or its Subsidiary is so paid. The Company or its Subsidiary shall also have the unrestricted right to withhold from any other cash amounts due (or to become due) from the Company or its Subsidiary to you, including from your wages or commissions, an amount equal to any Tax Withholdings. The Company or its Subsidiary shall report the payment of any Tax Withholdings and other related information to the appropriate governmental agencies as required under applicable laws.

G. Change of Capital Structure

If the number of outstanding shares of the Company Stock is increased or decreased as a result of a stock dividend, stock split, subdivision or consolidation of shares, or other similar change in capitalization, the number of Performance Stock Units will automatically be adjusted, as provided in the Plan and as the Committee shall determine to be equitably required so as to preserve the value of the Performance Stock Units that existed immediately before the change; provided, however, that the Company will not be required to issue any fractional shares as a result of such adjustment.

H. Miscellaneous

The grant of these Performance Stock Units does not obligate the Company or any of its Subsidiaries to continue your employment. If there is any litigation involving the Performance Stock Units, each party will bear its own expenses, including all legal fees, except that in the event of an action brought by you under this Notice of Grant following a Change of Control, then insofar as such action is not deemed to be frivolous by the arbitrator or court, the Company shall bear all expenses related to the arbitration or litigation, including all legal fees incurred by you. The Committee shall have the authority to interpret and administer this Notice of Grant.

I. 409A Compliance

The Performance Stock Units are intended to comply with Code section 409A and official guidance issued thereunder. Notwithstanding anything herein to the contrary, this Notice of Grant shall be interpreted, operated and administered in a manner consistent with this intention. Notwithstanding anything in the Plan or this Notice of Grant to the contrary, if at the time of your termination of employment with the Company you are "specified employee" as defined in Code section 409A, and the deferral of the commencement of any payment to you hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Code section 409A, then the commencement of the payment of any such amounts shall be deferred until the earlier of the first business day to occur following the date that is six (6) months following your "separation from service" (within the meaning of such term under Code section 409A) with the Company or your death.

J. Acceptance

By accepting this grant on-line, this Notice of Grant, together with the Plan, will become the entire agreement between you and the Company with respect to the subject matter hereof, and will be governed by and construed and enforced in accordance with the laws of the Commonwealth of Virginia without regard to conflict of law provisions in any jurisdiction. This Notice of Grant supersedes all prior discussions, negotiations, understandings, commitments and agreements with respect to such matters. By accepting this grant online, you agree that you are in compliance with, and will abide by, the Company's "Policy Against Insider Trading" which can be found on The CarMax Way. You also agree not to sell Company Stock at a time when other applicable laws prohibit a sale. This restriction will apply as long as you are an employee, consultant or director of the Company or one of its Subsidiaries.

Sincerely,

____

[Insert Name]
[Insert Title]

EXHIBIT 1
Performance Calculation

1. Performance Calculation . Except as set forth in Sections 3 and 4 below, the number of shares of Company Stock that will be paid shall be determined on the applicable Payment Date in accordance with the following performance calculation (the "Performance Calculation"):

    For Year 1 of the Performance Term:

    (One-Third of the Performance Share Units awarded)
    multiplied by
    (the Year 1 PSU Performance-Based Multiplier)

    For Year 2 of the Performance Term:

    (One-Third of the Performance Share Units awarded)
    multiplied by
    (the Year 2 PSU Performance-Based Multiplier)

    For Year 3 of the Performance Term:

    (One-Third of the Performance Share Units awarded)
    multiplied by
    (the Year 3 PSU Performance-Based Multiplier)

2. PSU Performance-Based Multiplier . For purposes of the Performance Calculation, the PSU Performance-Based Multiplier for each year of the Performance Term shall be a number between __ and __. The number of Performance Share Units that may be earned for each year of the Performance Term shall be determined by the Committee based upon the Performance-Based Multiplier and the attainment of performance targets based on such criteria as are determined by the Committee for each such year. The Committee may in its discretion determine a threshold level of Company performance required for any year of the Performance Term, such that the if actual Company performance is equal to or below such threshold, the number of shares of Company Stock that will be paid in respect of that year of the Performance Term shall be zero.

3. Payment on Death or Disability . Notwithstanding anything to the contrary, if payment is triggered upon your death or you becoming Disabled, then the number of shares of Company Stock that will be paid shall equal the number of vested Performance Stock Units.

4. Payment On or After a Change of Control . Notwithstanding anything to the contrary, if payment is triggered for any reason on or after the date of a Change of Control, then the number of shares of Company Stock that will be paid shall equal the number of vested Performance Stock Units.

5. Committee Certification . Prior to any payments (other than those under Sections 3 and 4) being made, the Committee will determine whether, and to what extent, the Performance Calculation for each year of the Performance Term has been achieved. Such determination shall be final, conclusive and binding on you, and on all other persons, to the maximum extent permitted by law. The Committee may adjust the Performance Calculation, as it deems appropriate.

SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT (the "Agreement") is entered into as April 23, 2017, by and between CarMax, Inc., a Virginia corporation, for itself and on behalf of its subsidiaries and affiliates (hereafter referred to collectively as "CarMax"), and James Lyski (hereafter referred to as the "Associate").

WHEREAS , CarMax and the Associate desire to agree upon the terms, conditions, compensation and benefits of the Associate's employment;

WHEREAS , CarMax recognizes that the Associate has developed or will continue to develop an intimate knowledge of and experience with respect to the business of CarMax;

WHEREAS , the Associate has developed or will develop and/or has or will come in contact with CarMax's proprietary and confidential information that is not readily available to the public, and which is of great importance to CarMax and is treated by CarMax as secret and confidential information; and

WHEREAS , upon execution of this Agreement, any prior severance or employment agreement, if any, between the Associate and CarMax, whether oral or written, will have no force and effect with respect to the terms and conditions of the Associate's employment with CarMax and will be replaced and superseded by the terms of this Agreement.

NOW, THEREFORE , in consideration of the Associate's employment and continued employment by CarMax and the mutual covenants and agreements of the parties set forth in this Agreement, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, CarMax and the Associate, intending to be legally bound, agree as follows:

Article 1. Term.

The Associate's employment with CarMax shall continue until such time as the Associate's employment is terminated by either party in accordance with Article 7 of this Agreement or the Associate's term of employment is extended or shortened by a subsequent written agreement duly executed by the Associate and CarMax.

Article 2. Duties and Responsibilities.

CarMax shall employ the Associate in the position of Executive Vice President, Chief Marketing Officer. The specific duties of such position are set forth in the then-current written job description for such position and are incorporated herein by reference. The Associate acknowledges and agrees to perform those job duties and/or such other job duties that may be assigned to the Associate or required of the Associate by CarMax. In the event that the Associate accepts a new or different position with CarMax or receives a new position title, (i) the Associate acknowledges and agrees to perform such new job duties, if any, as may be assigned to the Associate or required of the Associate by CarMax and (ii) this Agreement shall remain in full force and effect.

Article 3. Standard of Care.

3.1 General. During the term of this Agreement, the Associate shall devote his full business time, attention, knowledge and skills to CarMax's business and interests. The Associate covenants, warrants, and represents that he shall:

(a) devote his best efforts and talents to the performance of his employment obligations and duties for CarMax;

(b) exercise the highest degree of loyalty and the highest standards of conduct in the performance of his duties;

(c) observe and conform to the rules, regulations, and policies established or issued by CarMax; and

(d) observe and conform to the law in the performance of his employment obligations and duties for CarMax.

3.2 Forfeiture and Return of Incentive Compensation. It is CarMax's expectation that the Associate will discharge his duties hereunder with utmost attention to the standards set forth in Section 3.1. In the event the CarMax, Inc. Board of Directors ("Board") determines that the Associate has engaged in conduct constituting Cause (as defined in Section 7.4), which conduct directly results in the filing of a restatement of any financial statement previously filed with the Securities and Exchange Commission (or other governmental agency) under the Federal securities laws, the Associate shall immediately (i) forfeit all unpaid Affected Compensation (as defined below) and (ii) upon demand by CarMax repay to CarMax all Affected Compensation received or realized by the Associate together with interest at the prime rate in effect from time to time as reported in The Wall Street Journal; provided, however, that the forfeiture and repayment provisions of this Section 3.2 shall only apply where the Board makes a good faith determination that the Associate's conduct constituting Cause also constitutes one or more of the following acts or omissions:

(a) The Associate has committed a material breach of this Agreement, which breach was not cured or waived by CarMax, within ten (10) days of receipt by the Associate of notice from CarMax specifying the breach;

(b) The Associate intentionally fails to perform his duties, engages in intentional misconduct or intentionally refuses to abide by or comply with the directives of the Board, CarMax's Chief Executive Officer, or CarMax's policies and procedures, as applicable, which actions continued for a period of ten (10) days after receipt by the Associate of notice of the need to cure or cease;

(c) The Associate has willfully violated a material requirement of CarMax's code of conduct or breached his fiduciary duty to CarMax;

(d) The Associate's conviction of (or a plea of guilty or nolo contendere to) a felony or any crime involving moral turpitude, dishonesty, fraud, theft or financial impropriety; or

(e) The Associate has engaged in illegal conduct, embezzlement or fraud with respect to the business or affairs of CarMax.

For purposes of this Section 3.2, " Affected Compensation " means any payment to the Associate, any award or vesting of any equity or other short-term or long-term incentive compensation to the Associate, or any before-tax proceeds of a sale of previously awarded equity compensation realized by the Associate, in any instance in which (i) the payment, award or vesting of the foregoing was expressly conditioned upon the achievement of certain financial results that were subsequently the subject of such restatement, and (ii) a lesser amount of payment, award or vesting or before-tax proceeds of a sale of any of the foregoing would have been made to, vested in or otherwise earned or realized by, the Associate based upon such restated financial results.

Article 4. Other Employment.

The Associate shall not, during the term of this Agreement, be interested directly or indirectly, in any manner, as partner, officer, director, advisor, employee, or in any other capacity, in any other business similar to CarMax's business for the Associate's personal advantage or benefit or that of others; provided, further, the Associate agrees to obtain CarMax's prior written consent before engaging in any other occupation for compensation (actual or expected) while employed by CarMax. Such consent may be granted or withheld, in CarMax's absolute discretion; provided, however, such consent will not be required where such other occupation for compensation does not (i) in any manner infringe upon the Associate's job duties or the time or attention required to perform such duties, (ii) relate to any other business similar to CarMax's business or (iii) have a detrimental effect on CarMax's business, as determined in CarMax's absolute discretion.

Article 5. Compensation and Benefits.

As remuneration for all services to be rendered by the Associate during the term of this Agreement, and as consideration for complying with the covenants herein, CarMax shall pay and provide to the Associate the following:

5.1. **Base Salary.** The Associate shall be paid an annual salary of $500,000.00 (the "Base Salary"), payable biweekly in the amount of $19,230.77 (the "Biweekly Amount"), subject to applicable federal, state, and local withholding and any performance-based adjustments made by CarMax. In the event that the Associate accepts a new or different position with CarMax or accepts a new position title, CarMax, in its sole discretion, may adjust the Base Salary and Biweekly Amount.

5.2 **Bonus.**

(a) The Associate is eligible to participate in CarMax's performance-based bonus plan, as such plan may exist from time to time during the term of this Agreement and as defined and applied to the Associate's position.

(b) The award and amount of any bonus shall be determined (i) under CarMax's then-current performance-based bonus plan and (ii) at the absolute discretion of CarMax.

5.3 **Long Term Incentives.** During the term, the Associate shall be eligible to participate in CarMax's 2002 Stock Incentive Plan (or any successor incentive plan thereto) to the extent that the CarMax Compensation Committee, in its sole discretion, determines is appropriate.

5.4 **401(k) Plan.** During the term of this Agreement, the Associate shall be entitled to participate in CarMax's 401(k) plan, subject to the eligibility and participation requirements of such plan.

5.5 **Welfare Benefit Plans.** During the term of this Agreement, the Associate and/or the Associate's family will be eligible to participate in and will receive benefits under CarMax's then-current welfare benefit plans, policies and programs (the "Welfare Plans") to the extent such Welfare Plans are made available to other CarMax associates who are professionally similarly situated to the Associate (the "Peer Associates"), subject to the eligibility requirements and other provisions of such Welfare Plans. The benefits available pursuant to such Welfare Plans may include group term life insurance, comprehensive health and major medical insurance, dental insurance, and short-term and long-term disability benefits.

5.6 **Vacation.** During the term of this Agreement, the Associate will be entitled to paid vacation each fiscal year in accordance with then-current CarMax Time Away Guidelines.

5.7 **Right to Change Plans.** Nothing herein shall obligate CarMax to institute, maintain, or refrain from changing, amending, or discontinuing any benefit plan, policy program, or guideline so long as such changes are similarly applicable to the Peer Associates.

Article 6. Expenses.

During the term of this Agreement, CarMax shall pay or reimburse the Associate for reasonable travel and business expenses incurred by the Associate in furtherance of CarMax business and in accordance with the then-current CarMax travel and expense policy and any other applicable policies, upon submission to CarMax of vouchers or receipts reflecting such expenses.

Article 7. Employment Termination.

The Associate's employment with CarMax may be terminated in accordance with any of the following provisions:

7.1 **Termination by Death.**

(a) In the event the Associate's employment ends by reason of the Associate's death during the term of this Agreement, the Associate's benefits shall be determined in accordance with the then-current CarMax survivor's benefits, insurance, and/or other applicable programs. Further, stock options and grants, including performance-based grants, will become vested and exercisable by the Associate, the Associate's personal representatives, distributees, legatees, or estate in accordance with the terms and conditions of the applicable stock grant or option award agreement.

(b) The date of termination due to death shall be the Associate's date of death. Upon the date of termination, CarMax shall be obligated to pay the Associate's beneficiary or estate any Base Salary that was accrued but not yet paid as of the date of termination plus all other vested rights and benefits that the Associate is entitled to pursuant to this Agreement and other CarMax plans and programs.

7.2 **Voluntary Termination by the Associate.** The Associate may terminate employment at any time by giving at least thirty (30) days prior written notice to his immediate supervisor. During the notice period, the Associate shall fulfill all required job duties and responsibilities and cooperate and assist in the training of a replacement, if any. CarMax reserves the right to require the Associate to discontinue working for CarMax at any time during the thirty (30) day notice period, but shall pay the Associate the amount the Associate would have earned during any non-working portion of the remaining thirty (30) day notice period in accordance with Article 5.1, in addition to any other benefits to which the Associate has a vested right on the last day of employment; provided, however, that the Associate shall forfeit any bonus with respect to the fiscal year in which his voluntary termination under this Article 7.2 occurs. Subject to Section 7.5, CarMax thereafter shall have no further obligations under this Agreement.

7.3 **Voluntary Termination by CarMax.** CarMax may terminate the Associate's employment at any time and for any reason other than death or Cause (as defined below), by providing the Associate with at least thirty (30) days prior written notice. CarMax reserves the right to require the Associate to discontinue working for CarMax during the thirty (30) day notice period, but shall pay the Associate the amount the Associate would have earned during any non-working portion of the remaining thirty (30) day notice period in accordance with Article 5.1, in addition to any other benefits to which the Associate has a vested right on the last day of employment. After the thirty (30) day notice period, the Associate shall receive thirty-nine (39) biweekly payments equal to the Biweekly Amount less applicable federal, state, and local withholdings; provided however that CarMax's obligation to provide such thirty-nine (39) biweekly payments is subject to the Associate's compliance with (a) Articles 8, 9, 10 and 11 of this Agreement and (b) delivery to CarMax of an executed Agreement and General Release, which shall be substantially in the form attached hereto as Exhibit A (with such changes or additions as needed under then applicable law to give effect to its intent and purpose) (the "Agreement and General Release") within twenty-one (21) days of presentation thereof by CarMax to the Associate. Any amounts due following a termination of employment under this Agreement shall not be due until after the expiration of any revocation period applicable to the Agreement and General Release without the Associate having revoked such Agreement and General Release. CarMax thereafter shall have no further obligations under this Agreement.

7.4 **Voluntary Termination by CarMax For Cause.** Nothing in this Agreement shall be construed to prevent CarMax from terminating the Associate's employment under this Agreement, without notice or liability, for Cause. For purposes of this Agreement, "Cause" means that CarMax has any reason to believe any of the following:

(a) the Associate has committed fraud, misappropriation of funds or property, embezzlement or other similar acts of dishonesty;

(b) the Associate has been convicted of a felony or other crime involving moral turpitude (or pled nolo contendere thereto);

(c) the Associate has used, possessed or distributed any illegal drug;

(d) the Associate has committed any misconduct that may subject CarMax to criminal or civil liability;

(e) the Associate has breached the Associate's duty of loyalty to CarMax, including, without limitation, the misappropriation of any of CarMax's corporate opportunities;

(f) the Associate has committed a serious violation or violations of any CarMax policy or procedure;

(g) the Associate has committed a violation of any term of this Agreement;

(h) the Associate refuses to follow the lawful instructions of CarMax management;

(i) the Associate has committed any material misrepresentation in the employment application process;

(j) the Associate has committed deliberate actions, including neglect or failure to perform the job, which are contrary to the best interest of CarMax; or

(k) the Associate has continually failed to perform substantially his duties with CarMax.

If the Associate's employment is terminated for Cause during the term of this Agreement, this Agreement will terminate without further obligation of CarMax to the Associate other than the payment to the Associate of his Base Salary through the date of termination for Cause. The Associate shall immediately thereafter forfeit all rights and benefits he would otherwise have been entitled to receive under this Agreement.

7.5 **Good Reason Termination during Change in Control Employment Period** .

(a) For purposes of this Section 7.5, the defined terms set forth below shall have the following meanings:

(i) "Change in Control" means, as related to CarMax, Inc. (the "CarMax Parent"), the occurrence of either of the following events: (i) a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, becomes, or obtains the right to become, the beneficial owner of CarMax Parent securities having twenty percent (20%) or more of the combined voting power of the then outstanding securities of the CarMax Parent that may be cast for the election of directors to the Board of the CarMax Parent (other than as a result of an issuance of securities initiated by the CarMax Parent in the ordinary course of business); or (ii) as the result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions, the persons who were directors of the CarMax Parent before such transactions shall cease to constitute a majority of the board or of the board of directors of any successor to the CarMax Parent.

(ii) "Asset Sale" shall mean a sale of all or substantially all of the assets of the CarMax Parent in a single transaction or a series of related transactions.

(iii) "Change in Control Date" shall mean the date on which a Change in Control or Asset Sale occurs.

(iv) "Change in Control Employment Period" shall mean the period beginning on the Change in Control Date and ending on the second (2nd) anniversary of such date provided an Associate is employed by CarMax on such Change in Control Date.

(v) "Good Reason" shall mean, without the Associate's express written consent, the occurrence of any one (1) or more of the following:

(1) A material reduction in the Associate's Base Salary or target annual bonus;

(2) A material reduction in the Associate's duties or authority, (except in connection with the termination of the Associate's employment (x) for Cause or disability, (y) as a result of the Associate's death or retirement or (z) by the Associate other than for Good Reason);

(3) The Associate being required to relocate to a principal place of employment more than thirty-five (35) miles from the CarMax Parent's headquarters;

(4) The failure of the CarMax Parent to obtain an agreement from any successor to all or substantially all of the assets or business of the CarMax Parent to assume and agree to perform this Agreement within fifteen (15) days after a merger, consolidation, sale or similar transaction.

Notwithstanding anything herein to the contrary, for purposes of this Agreement, any determination of Good Reason must satisfy the materiality requirement under Treasury Regulation § 1.409A-1(n)(2)(i), any successor thereto and other applicable guidance.

(b) At any time during the Change in Control Employment Period, the Associate may terminate his employment for Good Reason upon notice to CarMax. Such notice shall state the intended date of termination and shall be given to CarMax at least forty-five (45) days prior to such date and shall set forth in detail the facts and circumstances claimed to provide grounds for such termination. CarMax shall have the right to cure the facts and circumstances giving rise to such grounds for termination for Good Reason. If CarMax does not so cure within the forty-five (45) day notice period, then the Associate's employment shall terminate on the date of termination stated in the notice.

(c) Notwithstanding Article 7.2, in the event of the Associate's voluntary termination of employment for Good Reason during the Change in Control Employment Period, the Associate shall receive thirty-nine (39) biweekly payments equal to the Biweekly Amount less applicable federal, state, and local withholdings; provided however that CarMax's obligation to provide such thirty-nine (39) biweekly payments is subject to the Associate's compliance with (i) Articles 8, 9, 10 and 11 of this Agreement and (ii) delivery to CarMax of an executed Agreement and General Release within twenty-one (21) days of presentation thereof by CarMax to the Associate. Any amounts due following a termination of employment under this Agreement shall not be due until after the expiration of any revocation period applicable to the Agreement and General Release without the Associate having revoked such Agreement and General Release. CarMax thereafter shall have no further obligations under this Agreement.

Article 8. Covenant Not to Compete.

The terms and provisions contained in this Article 8 comprise a covenant not to compete (the "Covenant Not to Compete"). The Associate acknowledges and agrees as follows:

8.1 CarMax operates a unique business concept regarding the sale and servicing of new and used vehicles in a highly competitive industry.

8.2 CarMax's competitors have attempted to duplicate CarMax's business concept in various markets throughout the United States, including markets where CarMax does not currently have a business location, and may continue to do so.

8.3 In connection with the Associate's employment with CarMax, he will receive access to, and training regarding, CarMax's business concept and will, accordingly, acquire commercially valuable knowledge of and insight into CarMax's operations and CarMax's proprietary and confidential information, any of which if made available to any Competitor (as defined below) could place CarMax at a competitive disadvantage.

8.4 In order to protect CarMax's legitimate business interests from Competitors (as defined below) and to protect CarMax's critical interest in its proprietary and confidential information, the Associate covenants and agrees as follows:

During the Associate's employment with CarMax and for a period of twenty-four (24) months following the last day of the Associate's employment (the "Restricted Period"), the Associate will not, directly or indirectly, compete with CarMax by acting "in a competitive capacity" (as defined below), for, or on behalf of, any person or entity operating or developing, during the Restricted Period, a business that provides or intends to provide activities, products or services that are the same or substantially similar to, and competitive with, the business of CarMax as of Associate's last day of employment with CarMax (each, a "Competitor") within any Metropolitan Statistical Area (as defined by the United States Office of Management and Budget) in which CarMax has a retail store site as of Associate's last day of employment. Such Competitors include, but are not limited to: Sonic Automotive, Inc.; Lithia Motors, Inc.; Group 1 Automotive, Inc.; AutoNation, Inc.; Penske Automotive Group, Inc.; Asbury Automotive Group, Inc.; Hendrick Automotive Group; Auction Direct USA, L.P.; Car Sense Inc.; AutoAmerica, Inc.; Left Gate Property Holding, Inc. d/b/a Texas Direct Auto; Off Lease Only, Inc.; Carvana, LLC; Carvana Group, LLC; AutoMatch USA, LLC; DriveTime Car Sales Company, LLC; DriveTime Automotive Group, Inc.; CarLotz, Inc.; Hertz Global Holdings, Inc.; Enterprise Holdings, Inc.; Avis Budget Group, Inc.; Cox Automotive, Inc.; Classified Ventures, LLC; TrueCar, Inc.; Edmunds.com, Inc.; Dealertrack Technologies, Inc.; Dealer Dot Com, Inc.; CarGurus, LLC; Blinker, Inc.; and Beepi, Inc., and any automotive retail operation affiliated with, owned, operated, or controlled by Berkshire Hathaway Inc.; Home Depot, Inc.; Lowe's Companies, Inc.; Target Corporation; Wal-Mart Stores, Inc.; Sears Holdings Corporation; Carrefour S.A.; Costco Wholesale Corporation; Royal Dutch Shell plc; Exxon Mobil Corporation; Chevron Corporation; and/or Gulliver International Co., Ltd.

8.5 A business, including any Competitor, or any of its respective subsidiaries or affiliates, will not be considered to be in competition with CarMax for purposes of Article 8 if the business, or operating unit of the business, or its respective subsidiaries or affiliates, by which the Associate will be or is employed (i) does not have within the twenty-four (24) months preceding the Associate's termination of employment with CarMax, annual gross revenues (calculated on a rolling 12-month basis) of at least $5,000,000 derived from the sale and servicing of new or used vehicles; or (ii) is not projected (by the business or operating unit of the business) to have within the twenty-four (24) months following the Associate's termination of employment with CarMax, annual gross revenues (regardless of how calculated) of at least $5,000,000 derived from the sale and servicing of new or used vehicles.

8.6 Acting "in a competitive capacity" shall mean providing to a Competitor, directly or indirectly, the same or substantially similar services that the Associate provided to CarMax at any time during Associate's last twenty-four (24) months of employment.

8.7 Nothing herein shall prevent or restrict the Associate from working for any person in any role or in any capacity that is not in competition with CarMax.

8.8 Notwithstanding the foregoing, nothing herein shall be deemed to prevent or limit the right of the Associate to invest in the capital stock or other securities of any corporation whose stock or securities are regularly traded on any public exchange.

8.9 The Associate and CarMax have examined in detail the Covenant Not to Compete contained in this Article 8 and each agrees that the restraint imposed upon the Associate is reasonable in light of the legitimate business interests of CarMax and is not unduly harsh or burdensome with respect to the Associate's ability to earn a livelihood. If any provision of the Covenant Not to Compete relating to the time period, geographic area or scope of restricted activities shall be declared by a court of competent jurisdiction to exceed the maximum time period, geographic area or scope of activities, as applicable, that such court deems reasonable and enforceable, then such time period, geographic area or scope of activities shall be deemed to be, and thereafter shall become, the maximum time period, scope of activities or largest geographic area that such court deems reasonable and enforceable and this Agreement shall automatically be considered to have been amended and revised to reflect such determination.

8.10 The Associate and CarMax acknowledge that the Associate's services are of a special, extraordinary, and intellectual character that gives the Associate unique value, and that CarMax's business is highly competitive, and that violation of the Covenant Not to Compete provided herein would cause immediate, immeasurable, and irreparable harm, loss, and damage to CarMax not adequately compensable by a monetary award. In the event of any breach or threatened breach by the Associate of the Covenant Not to Compete, CarMax shall be entitled to such equitable and injunctive relief as may be available to restrain the Associate from violating the provisions hereof. Nothing herein shall be construed as prohibiting CarMax from pursuing any other remedies available at law or in equity for such breach or threatened breach, including the recovery of damages and the immediate termination of the employment of the Associate hereunder for Cause.

Article 9. Non-Solicitation of Employees.

The Associate agrees that during the Associate's employment with CarMax and for a period of twenty-four (24) months following the last day of the Associate's employment, the Associate shall not, directly or indirectly, solicit or induce, or attempt to solicit or induce, any employee of CarMax with whom the Associate had material business-related contact on behalf of CarMax, to leave employment with CarMax for any reason whatsoever (the "Covenant Not to Solicit"). For purposes of this Article 9, employee shall mean any individual employed by CarMax.

Article 10. Confidentiality.

The terms and provisions contained in this Article 10 comprise a covenant of confidentiality (the "Covenant of Confidentiality").

The Associate understands and agrees that any and all Protected Information is the property of CarMax and is essential to the protection of CarMax's goodwill and to the maintenance of CarMax's competitive position and accordingly should be kept secret. For purposes of this Agreement, "Protected Information" means trade secrets, confidential and proprietary business information of or about CarMax, and any other information of CarMax, including technical data, processes, know-how, financial data, analyses, forecasts, plans, operations information and data, customer lists (including potential customers) and information, marketing plans, materials and information, product and service information, accounts and billings information, sales transaction data, sales documents and information, discoveries, ideas, concepts, designs, drawings, specifications, techniques, models, information systems data and materials, computer software or hardware, data analyses and compilations, source code, object code, documentation, diagrams, flow charts, research, procedures, methods, systems, programs, price lists, pricing policies, supplier and distributor information, sources of supply, internal memoranda, promotional plans, internal policies, purchasing information, operating methods and procedures, training materials, and any products and services which may be developed from time to time by CarMax and its agents or employees, including the Associate; provided, however, that information that is in the public domain (other than as a result of a breach of this Agreement), approved for release by CarMax or lawfully obtained from third parties who are not bound by a confidentiality agreement with CarMax, is not Protected Information.

CarMax has advised the Associate and the Associate acknowledges that it is the policy of CarMax to maintain as secret and confidential all Protected Information, and that Protected Information has been and will be developed at substantial cost to and effort by CarMax. The Associate agrees to hold in strict confidence and safeguard any and all Protected Information accessed or accessible by the Associate during the Associate’s employment. The Associate shall not, without the prior written consent of CarMax, at any time, directly or indirectly, divulge, furnish, use, disclose or make accessible to any person, firm, corporation, association, or other entity (otherwise than as may be required in the regular course of the Associate’s employment with CarMax), any Protected Information, or cause any such Protected Information to enter the public domain.

Nothing contained in this Article 10 is intended to reduce in any way the protection available to CarMax pursuant to the Uniform Trade Secrets Act as adopted in Virginia or any other state or other applicable laws that prohibit the misuse or disclosure of confidential or proprietary information. Unless lengthened by the application of the Virginia Uniform Trade Secrets Act or other applicable law, the restrictions in Article 10 shall remain in effect during Associate’s employment and for five (5) years thereafter.

Article 11. Return of CarMax Property.

Upon the termination (for any reason) of the Associate’s employment with CarMax, the Associate shall deliver promptly to CarMax all CarMax property including, without limitation, any automobiles, equipment, credit cards, keys, building access cards, identification, cellular phones, computers, software, CD ROMs, customer lists, and all Protected Information as defined in Article 10 of this Agreement. The Associate further agrees not to take or extract any portion of any such information and/or materials in written, computer, electronic or any other reproducible form.

Article 12. Monies Owed.

To the extent that the Associate owes CarMax any monies at the time of termination of employment, the Associate authorizes and agrees to have CarMax withhold such amounts owed from the Associate’s final paycheck, to the maximum extent permitted by applicable law.

Article 13. Work Product.

(a) All work product prepared by the Associate in connection with performing job duties for CarMax shall be the sole property of CarMax. CarMax shall have full and exclusive rights to use, reproduce, publish, or otherwise profit from such work product, as CarMax deems appropriate. The Associate agrees to assist CarMax, or any agent designated by CarMax, at any time and at no cost to the Associate, in obtaining any patents, copyrights, trademarks or other forms of legal protection for any such work product.

(b) To the extent that any work product is deemed in any way to fall within the definition of "work made for hire," as such term is defined in 17 U.S.C. § 101, such work product shall be considered "work made for hire," the copyright of which shall be owned solely, completely and exclusively by CarMax.

(c) For the purpose of this Agreement, the term "work product" includes, but is not limited to, reports, manuals, inventions, improvements, designs, formulae, processes, techniques, methods, computer software, proposals, technical solutions, patents, training materials, other works of authorship, innovations, and enhancements created by the Associate or the Associate's staff.

Article 14. Dispute Resolution.

Except for actions initiated by CarMax to enjoin a breach by the Associate, and/or recover damages from the Associate, related to the Covenant Not to Compete (Article 8), the Covenant Not to Solicit (Article 9) or the Covenant of Confidentiality (Article 10) (collectively, the "Restrictive Covenants"), which action(s) CarMax may bring in an appropriate court of law or equity, any disagreement between the Associate and CarMax concerning anything covered by this Agreement or concerning other terms or conditions of the Associate's employment or the termination of the Associate's employment will be settled by final and binding arbitration pursuant to CarMax's Dispute Resolution Rules and Procedures in effect at the time the disagreement or dispute arises or at the time of termination in the event the Associate's employment terminated. The decision of the arbitrator will be final and binding on both the Associate and CarMax and may be enforced in a court of appropriate jurisdiction.

Article 15. General Provisions.

15.1 **Notices** . If CarMax needs to send any notices to the Associate in connection with this Agreement, it will send such notice to the Associate's address of record, as shown in CarMax's most recent payroll records. The Associate shall send any similar notices to CarMax at:

CarMax, Inc.
Attention: Corporate Secretary
12800 Tuckahoe Creek Parkway
Richmond, VA 23238

15.2 **Amendments and Entire Agreement.** This Agreement may not be amended except by a writing executed by CarMax and the Associate. This Agreement constitutes the entire agreement of CarMax and the Associate relating to the subject matter hereof and supersedes all prior oral and written understandings and agreements relating to such subject matter. The terms and conditions of the Associate's employment shall, to the extent not addressed or described in this Agreement, be governed by CarMax's then-current policies and procedures and existing practices.

15.3 **Successors and Assigns.** The Associate hereby consents to CarMax's assignment of this Agreement to any affiliate, subsidiary or parent of CarMax at any time. Any other assignment by either party of the rights and obligations of such party hereunder shall not be made without the prior written consent of such other party.

15.4 **Severability.** All provisions of this Agreement shall be applicable only to the extent that they do not violate any applicable law, and are intended to be limited to the extent necessary so that they will not render this Agreement invalid, illegal or unenforceable under any applicable law. If any provision of this Agreement or any application thereof shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of other provisions of this Agreement or of any other application of such provision shall in no way be affected thereby. The Restrictive Covenants shall be severable, and if any of them is held invalid because of its duration, scope of area or activity, or any other reason, the parties agree that such covenant shall be adjusted or modified by the court to the extent necessary to cure that invalidity, and the modified covenant shall thereafter be enforceable as if originally made in this Agreement.

15.5 **Attorney's Fees** . In any action arising under this Agreement, CarMax, so long as it prevails, shall be entitled to recover its reasonable attorney's fees and costs.

15.6 **Waiver of Rights.** No waiver by CarMax or the Associate of a right or remedy hereunder shall be deemed to be a waiver of any other right or remedy or of any subsequent right or remedy of the same kind.

15.7 **Restrictive Covenants of the Essence.** The Restrictive Covenants in Articles 8, 9 and 10 of the Agreement are of the essence of this Agreement. In the event that the Associate has a claim or cause of action against CarMax (whether related to this Agreement or not), such claim or cause of action, including but not limited to a breach of this Agreement by CarMax, shall not prevent or otherwise constitute a defense to CarMax's enforcement of the Restrictive Covenants and shall not excuse the Associate's performance of the Restrictive Covenants. CarMax shall at all times maintain the right to seek enforcement of the Restrictive Covenants whether or not CarMax has previously refrained from seeking enforcement of any such Restrictive Covenant as to the Associate or any other peer Associate who has signed an agreement with similar covenants.

15.8 **Definitions: Headings and Numbers; Construction.** A term defined in any part of this Agreement shall have the defined meaning wherever such term is used herein. The headings contained in this Agreement are for reference purposes only and shall not affect in any manner the meaning or interpretation of this Agreement. Where appropriate to the context of this Agreement, use of the singular shall be deemed also to refer to the plural, and use of the plural to the singular. This Agreement shall be construed and enforced without any presumption or construction against the party drafting the Agreement.

15.9 **Counterparts.** This Agreement may be executed in separate counterparts, each of which shall be deemed an original but both of which taken together shall constitute but one and the same instrument.

15.10 **Governing Laws and Forum.** This Agreement shall be governed by, construed and enforced in accordance with the laws of the Commonwealth of Virginia without regard to conflicts of laws principles thereof. In the event of any litigation between CarMax and Associate related to the enforcement or enforceability of the Restrictive Covenants, the parties agree that the Circuit Court for the County of Henrico, Virginia, shall have mandatory and exclusive jurisdiction and venue of any such action.

15.11 **Grants or Options.** This Agreement does not affect the terms and conditions controlling, or status of, any stock options or grants of restricted stock which previously have been or later may be awarded to the Associate. Any vested stock options or grants of restricted stock are governed by the terms of the letters by which they were made, which are incorporated herein by reference as if set forth in full in this Agreement.

15.12 **No Encumbrances.** In entering into this Agreement, the Associate certifies that he possesses the legal capacity to do so, and that his employment with CarMax is not in violation of any other valid agreement. The Associate agrees to hold CarMax harmless from any debts, judgments, or liens that the Associate acquired prior to entering into this Agreement. If the Associate is currently involved in, or becomes involved in, a lawsuit or any other legal proceeding unrelated to CarMax or any of its affiliates, subsidiaries, or related entities (collectively, the "CarMax Entities"), the Associate warrants that such CarMax Entities shall have no liability with respect to such lawsuit or legal proceeding and agrees to fully indemnify the CarMax Entities for any and all fees, costs and other expenses with respect to any such action.

15.13 **Opportunity to Review.** The Associate acknowledges that he has read this Agreement and has had an adequate opportunity to review it and to obtain any legal or financial advice that the Associate deems appropriate. The Associate acknowledges that he has signed this Agreement freely and voluntarily.

Article 16. Protected Rights.

Notwithstanding any other terms and conditions of this Agreement:

The Associate understands that nothing contained in this Agreement limits the Associate's ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). The Associate further understands that this Agreement does not limit the Associate's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to CarMax. This Agreement does not limit the Associate's right to receive an award for information provided to any Government Agencies.

[Signature Page Follows]

IN WITNESS WHEREOF, CarMax and the Associate have executed this Agreement as April 23, 2017.

By: /s/ James Lyski

Printed Name: James Lyski

CarMax, Inc.

By: /s/ Eric M. Margolin
Name: Eric M. Margolin
Title: Executive Vice President, General Counsel and
Corporate Secretary

EXHIBIT A

AGREEMENT AND GENERAL RELEASE

This Agreement and General Release (the "Agreement and General Release"), dated as of _______ __, 20__, is made by and between CarMax, Inc., for itself and its affiliates, subsidiaries, divisions, successors and assigns in such capacity, and the current, future and former employees, officers, directors, trustees and agents thereof (collectively referred to throughout this Agreement as the "Company") and _______________________ ("Associate"), for him/herself and his/her heirs, executors, administrators, successors and assigns (together with Associate, collectively referred to throughout this Agreement and General Release as "Employee") agree:

1. Last Day of Employment. The Associate's last day of employment with the Company is ____________, 20__. In addition, effective as of ____________, 20__, the Associate resigns from the Associate's position as of the Company, and will not be eligible for any benefits or compensation after ____________, 20__, other than as specifically provided in Article 7, as applicable, of the Severance Agreement between the Company and the Associate dated as of __________ __, 20__ ("Severance Agreement") and the Associate's continued right, if any, to indemnification and directors and officers liability insurance. In addition, effective as of ____________, 20__, the Associate resigns from all offices, directorships, trusteeships, committee memberships and fiduciary capacities held with, or on behalf of, the Company or any benefit plans of the Company. These resignations will become irrevocable as set forth in Section 3 below.

2. Consideration. The parties acknowledge that this Agreement and General Release is being executed in accordance with Article 7.3 or 7.5 of the Severance Agreement, between the Company and the Associate dated as of __________ __, 20__ ("Severance Agreement") and that this Agreement and General Release is a condition to the receipt by Employee of all payments and benefits thereunder.

3. Revocation. The Associate may revoke this Agreement and General Release for a period of seven (7) calendar days following the day the Associate executes this Agreement and General Release. Any revocation within this period must be submitted, in writing, to the Company and state, "I hereby revoke my acceptance of our Agreement and General Release." The revocation must be personally delivered or mailed to the Company's ___________________________ at the Company's corporate office, or his/her designee, and, if mailed, postmarked within seven (7) calendar days of execution of this Agreement and General Release. This Agreement and General Release shall not become effective or enforceable until the revocation period has expired. If the last day of the revocation period is a Saturday, Sunday, or legal holiday in Virginia, then the revocation period shall not expire until the next following day that is not a Saturday, Sunday, or legal holiday.

4. General Release of Claims. Employee knowingly and voluntarily releases and forever discharges the Company from any and all claims, rights, causes of action, demands, damages, fees, costs, expenses, including attorneys' fees, and liabilities of any kind whatsoever, whether known or unknown, against the Company, that Employee has, has ever had or may have as of the date of execution of this Agreement and General Release, including, but not limited to, any alleged violation of:

- The Age Discrimination in Employment Act of 1967, as amended;
- The Older Workers Benefit Protection Act of 1990;
- Title VII of the Civil Rights Act of 1964, as amended;
- The Civil Rights Act of 1991;

- Sections 1981 through 1988 of Title 42 of the United States Code, as amended;
- The Employee Retirement Income Security Act of 1974, as amended;
- The Immigration Reform and Control Act, as amended;
- The Americans with Disabilities Act of 1990, as amended;
- The Worker Adjustment and Retraining Notification Act, as amended;
- The Occupational Safety and Health Act, as amended;
- The Family and Medical Leave Act of 1993;
- All other federal, state or local civil or human rights laws, whistleblower laws, or any other local, state or federal law, regulations and ordinances;
- All public policy, contract, tort, or common laws; and
- All allegations for costs, fees, and other expenses including attorneys' fees incurred in these matters.

Notwithstanding anything herein to the contrary, the sole matters to which the Agreement and General Release do not apply are: (i) Employee's rights, if any, of indemnification and directors and officers liability insurance coverage to which the Associate was entitled immediately prior to __________ __, 20__ with regard to the Associate's service as an officer and director of the Company; (ii) Employee's rights under any tax-qualified pension plan or claims for accrued vested benefits under any other employee benefit plan, policy or arrangement maintained by the Company or under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended; (iii) Employee's rights under Article 7.3 or 7.5 of the Severance Agreement, as the case may be; (iv) Employee's rights as a stockholder of the Company; (v) Employee's right to file charges or complaints with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"), although Employee waives the Associate's right to recover any damages or other relief in any claim or suit brought by or through the Government Agencies on behalf of Employee under the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964 as amended, the Americans with Disabilities Act, or any other federal or state discrimination law, except where such waivers are prohibited by law, provided, however, this Agreement and General Release does not limit Employee's right to receive an award for information provided to any Government Agencies; (vi) Employee's rights to file charges with the Equal Employment Opportunity Commission, or any government agency concerning claims of discrimination, although Employee waives the Associate's right to recover any damages or other relief in any claim or suit brought by or through the Equal Employment Opportunity Commission or any other federal, state or local agency on behalf of Employee under the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964 as amended, the Americans with Disabilities Act, or any other federal or state discrimination law, except where such waivers are prohibited by law; and (vii) Employee's rights that cannot be released by private agreement under applicable law.

5. Affirmations. Employee affirms that the Associate has been paid or has received all compensation, wages, bonuses, commissions, and/or benefits to which the Associate may be entitled and no other compensation, wages, bonuses, commissions and benefits are due to the Associate, except as provided in Article 7.3 or 7.5 of the Severance Agreement, as applicable. The Employee also affirms the Associate has no known workplace injuries.

6. Return of Property. Employee represents that the Associate has returned to the Company all property belonging to the Company, including but not limited to any vehicle, laptop, cell phone, keys, access cards,

phone cards and credit cards, and all Protected Information as defined in Article 10 of the Severance Agreement.

7. Cooperation. Employee agrees to reasonably cooperate with the Company to provide truthful and accurate information in connection with any administrative proceeding, arbitration, or litigation relating to any matter that occurred during the Associate's employment with the Company in which the Associate was involved or of which the Associate has knowledge. Employee further understands that this Agreement and General Release does not limit Employee's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company.

8. Governing Law and Interpretation. This Agreement and General Release shall be governed and construed in accordance with the laws of the Commonwealth of Virginia, without reference to Virginia's choice of law statutes or decisions. In the event Employee or the Company breaches any provision of this Agreement and General Release, Employee and the Company acknowledge that either may institute an action to specifically enforce any term or terms of this Agreement and General Release pursuant to the dispute resolution provisions of Article 14 of the Severance Agreement. Should any provision of this Agreement and General Release be declared illegal or unenforceable by any court of competent jurisdiction and should the provision be incapable of being modified to be enforceable, such provision shall immediately become null and void, leaving the remainder of this Agreement and General Release in full force and effect. Nothing herein, however, shall operate to void or nullify any enforceable general release language contained in this Agreement and General Release.

9. No Admission of Wrongdoing. Employee agrees neither this Agreement and General Release nor the furnishing of the consideration for this Agreement and General Release shall be deemed or construed at any time for any purpose as an admission by the Company of any liability or unlawful conduct of any kind.

10. Amendment. This Agreement and General Release may not be modified, altered or changed except upon express written consent of both parties wherein specific reference is made to this Agreement and General Release.

11. Entire Agreement. This Agreement and General Release sets forth the entire agreement between the parties hereto and fully supersedes any prior agreements or understandings between the parties; provided, however, that notwithstanding anything in this Agreement and General Release, the provisions in the Severance Agreement that are intended to survive termination of the Severance Agreement, including but not limited to those contained in Articles 8, 9, 10, 11 and 14 shall survive and continue in full force and effect. Employee acknowledges the Associate has not relied on any representations, promises, or agreements of any kind made to the Associate in connection with the Associate's decision to accept this Agreement and General Release.

EMPLOYEE HAS BEEN ADVISED THAT ASSOCIATE HAS UP TO TWENTY-ONE (21) CALENDAR DAYS TO REVIEW AND CONSIDER THIS AGREEMENT AND GENERAL RELEASE AND HAS BEEN ADVISED IN WRITING TO CONSULT WITH AN ATTORNEY PRIOR TO EXECUTION OF THIS AGREEMENT AND GENERAL RELEASE.
EMPLOYEE AGREES ANY MODIFICATIONS, MATERIAL OR OTHERWISE, MADE TO THIS AGREEMENT AND GENERAL RELEASE DO NOT RESTART OR AFFECT IN ANY MANNER THE ORIGINAL TWENTY-ONE (21) CALENDAR DAY CONSIDERATION PERIOD.

HAVING ELECTED TO EXECUTE THIS AGREEMENT AND GENERAL RELEASE, TO FULFILL THE PROMISES SET FORTH HEREIN, AND TO RECEIVE THE SUMS AND BENEFITS SET FORTH IN THE SEVERANCE AGREEMENT, TO WHICH EMPLOYEE WOULD NOT OTHERWISE BE ENTITLED, EMPLOYEE FREELY AND KNOWINGLY, AND AFTER DUE CONSIDERATION, ENTERS INTO THIS AGREEMENT AND GENERAL RELEASE INTENDING TO WAIVE, SETTLE AND RELEASE ALL CLAIMS EMPLOYEE HAS OR MIGHT HAVE AGAINST THE COMPANY AS SET FORTH HEREIN.

IN WITNESS WHEREOF, the parties hereto knowingly and voluntarily executed this Agreement and General Release as of the date first above written:

CarMax, Inc.:

By:
Name:______________________________
Title:_______________________________
Date:_______________________________

Associate/Employee:

Name: _____________________________
Date: ______________________________

-

EXHIBIT 21.1

CarMax, Inc.

Subsidiaries of the Company

Subsidiary	Jurisdiction of Incorporation or Organization
CarMax Auto Superstores, Inc.	Virginia
CarMax Auto Superstores West Coast, Inc.	Virginia
CarMax Auto Superstores California, LLC	Virginia
CarMax Auto Superstores Services, Inc.	Virginia
CarMax Business Services, LLC	Delaware
Glen Allen Insurance, Ltd.	Bermuda

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
CarMax, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-100311, 333-127486, 333-135701, 333-152717, 333-160912, 333-183594, and 333-212310) on Form S-8 of CarMax, Inc. of our report dated April 19, 2019 , with respect to the consolidated balance sheets of CarMax, Inc. and subsidiaries (the Company) as of February 28, 2019 and 2018 , the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended February 28, 2019 , and the related notes, and the effectiveness of internal control over financial reporting as of February 28, 2019 , which report appears in the February 28, 2019 annual report on Form 10-K of the Company.

/s/ KPMG LLP
Richmond, Virginia
April 19, 2019

EXHIBIT 24.1

POWER OF ATTORNEY

I hereby appoint William D. Nash or Thomas W. Reedy my true and lawful attorney-in-fact to sign on my behalf, as an individual and in the capacity stated below, the Annual Report on Form 10-K of CarMax, Inc. for its fiscal year ended February 28, 2019 , and any amendment which such attorney-in-fact may deem appropriate or necessary.

Signature:	/s/ Peter J. Bensen
Print Name:	Peter J. Bensen
Title:	Director
Signature:	/s/ Ronald E. Blaylock
Print Name:	Ronald E. Blaylock
Title:	Director
Signature:	/s/ Sona Chawla
Print Name:	Sona Chawla
Title:	Director
Signature:	/s/ Thomas J. Folliard
Print Name:	Thomas J. Folliard
Title:	Director
Signature:	/s/ Shira Goodman
Print Name:	Shira Goodman
Title:	Director
Signature	/s/ Robert J. Hombach
Print Name:	Robert J. Hombach
Title:	Director
Signature:	/s/ David W. McCreight
Print Name:	David W. McCreight
Title:	Director
Signature:	/s/ Pietro Satriano
Print Name:	Pietro Satriano
Title:	Director
Signature	/s/ Marcella Shinder
Print Name:	Marcella Shinder
Title:	Director
Signature	/s/ Mitchell D. Steenrod
Print Name:	Mitchell D. Steenrod
Title:	Director
Signature:	/s/ William R. Tiefel
Print Name:	William R. Tiefel
Title:	Director

EXHIBIT 31.1

Certification of the Chief Executive Officer
Pursuant to Rule 13a-14(a)

I, William D. Nash, certify that:

1. I have reviewed this annual report on Form 10-K of CarMax, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 19, 2019

/s/ William D. Nash
William D. Nash
President and Chief Executive Officer

EXHIBIT 31.2

Certification of the Chief Financial Officer
Pursuant to Rule 13a-14(a)

I, Thomas W. Reedy, certify that:

1. I have reviewed this annual report on Form 10-K of CarMax, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 19, 2019

/s/ Thomas W. Reedy
Thomas W. Reedy
Executive Vice President and
Chief Financial Officer

EXHIBIT 32.1

Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350

In connection with the CarMax, Inc. (the "company") Annual Report on Form 10-K for the year ended February 28, 2019 , as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William D. Nash, President and Chief Executive Officer of the company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company as of, and for, the periods presented in the Report.

Date: April 19, 2019

/s/ William D. Nash
William D. Nash
President and Chief Executive Officer

EXHIBIT 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350

In connection with the CarMax, Inc. (the "company") Annual Report on Form 10-K for the year ended February 28, 2019 , as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas W. Reedy, Executive Vice President and Chief Financial Officer of the company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company as of, and for, the periods presented in the Report.

Date: April 19, 2019

/s/ Thomas W. Reedy
Thomas W. Reedy
Executive Vice President and
Chief Financial Officer