

CARMAX INC  
Form 10-Q  
October 08, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended August 31, 2015

OR

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

Commission File Number: 1-31420

CARMAX, INC.  
(Exact name of registrant as specified in its charter)

VIRGINIA  
(State or other jurisdiction of  
incorporation or organization)

54-1821055  
(I.R.S. Employer  
Identification No.)

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

23238  
(Zip Code)

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

N/A  
(Former name, former address and former fiscal year, if changed since last report)

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

Yes  No

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

Yes  No

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding as of September 30, 2015

Common Stock, par value \$0.50

202,634,839

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## CARMAX, INC. AND SUBSIDIARIES

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CARMAX, INC. AND SUBSIDIARIES

## Consolidated Statements of Earnings

(Unaudited)

(In thousands except per share data)	Three Months Ended August 31				Six Months Ended August 31			
	2015	% <sup>(1)</sup>	2014	% <sup>(1)</sup>	2015	% <sup>(1)</sup>	2014	% <sup>(1)</sup>
<b>SALES AND OPERATING REVENUES:</b>								
Used vehicle sales	\$3,150,220	81.1	\$2,920,165	81.1	\$6,442,878	81.6	\$5,980,506	81.4
New vehicle sales	60,493	1.6	69,944	1.9	120,541	1.5	139,733	1.9
Wholesale vehicle sales	591,774	15.2	530,270	14.7	1,168,399	14.8	1,075,515	14.6
Other sales and revenues	82,426	2.1	78,815	2.2	167,983	2.1	153,636	2.1
<b>NET SALES AND OPERATING REVENUES</b>	<b>3,884,913</b>	<b>100.0</b>	<b>3,599,194</b>	<b>100.0</b>	<b>7,899,801</b>	<b>100.0</b>	<b>7,349,390</b>	<b>100.0</b>
Cost of sales	3,363,543	86.6	3,135,855	87.1	6,834,637	86.5	6,384,320	86.9
<b>GROSS PROFIT</b>	<b>521,370</b>	<b>13.4</b>	<b>463,339</b>	<b>12.9</b>	<b>1,065,164</b>	<b>13.5</b>	<b>965,070</b>	<b>13.1</b>
<b>CARMAX AUTO FINANCE INCOME</b>	<b>98,279</b>	<b>2.5</b>	<b>92,574</b>	<b>2.6</b>	<b>207,387</b>	<b>2.6</b>	<b>187,189</b>	<b>2.5</b>
Selling, general and administrative expenses	330,784	8.5	297,638	8.3	680,563	8.6	611,084	8.3
Interest expense	7,450	0.2	7,351	0.2	14,553	0.2	14,952	0.2
Other expense	1,593	—	283	—	1,634	—	560	—
Earnings before income taxes	279,822	7.2	250,641	7.0	575,801	7.3	525,663	7.2
Income tax provision	107,594	2.8	96,123	2.7	221,599	2.8	201,492	2.7
<b>NET EARNINGS</b>	<b>\$172,228</b>	<b>4.4</b>	<b>\$154,518</b>	<b>4.3</b>	<b>\$354,202</b>	<b>4.5</b>	<b>\$324,171</b>	<b>4.4</b>
<b>WEIGHTED AVERAGE COMMON SHARES:</b>								
Basic	207,249		218,180		207,969		219,224	
Diluted	209,648		221,070		210,645		222,351	
<b>NET EARNINGS PER SHARE:</b>								
Basic	\$0.83		\$0.71		\$1.70		\$1.48	
Diluted	\$0.82		\$0.70		\$1.68		\$1.46	

<sup>(1)</sup> 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.

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CARMAX, INC. AND SUBSIDIARIES  
 Consolidated Statements of Comprehensive Income  
 (Unaudited)

(In thousands)	Three Months Ended August 31		Six Months Ended August 31	
	2015	2014	2015	2014
NET EARNINGS	\$172,228	\$154,518	\$354,202	\$324,171
Other comprehensive income (loss), net of taxes:				
Net change in retirement benefit plan unrecognized actuarial losses	339	213	645	426
Net change in cash flow hedge unrecognized losses	(30	) 1,096	(1,403	) 1,378
Other comprehensive income (loss), net of taxes	309	1,309	(758	) 1,804
TOTAL COMPREHENSIVE INCOME	\$172,537	\$155,827	\$353,444	\$325,975

See accompanying notes to consolidated financial statements.

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## CARMAX, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

	(Unaudited)	
	As of August 31	As of February 28
(In thousands except share data)	2015	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 100,477	\$ 27,606
Restricted cash from collections on auto loan receivables	335,075	294,122
Accounts receivable, net	100,832	137,690
Inventory	1,911,549	2,086,874
Deferred income taxes	10,333	8,100
Other current assets	45,459	44,646
<b>TOTAL CURRENT ASSETS</b>	<b>2,503,725</b>	<b>2,599,038</b>
Auto loan receivables, net	9,116,512	8,435,504
Property and equipment, net	2,016,520	1,862,538
Deferred income taxes	166,669	167,638
Other assets	149,139	133,483
<b>TOTAL ASSETS</b>	<b>\$ 13,952,565</b>	<b>\$ 13,198,201</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 453,864	\$ 454,810
Accrued expenses and other current liabilities	226,371	250,307
Accrued income taxes	1,169	1,554
Short-term debt	2,122	785
Current portion of long-term debt	—	10,000
Current portion of finance and capital lease obligations	21,584	21,554
Current portion of non-recourse notes payable	296,867	258,163
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,001,977</b>	<b>997,173</b>
Long-term debt, excluding current portion	300,000	300,000
Finance and capital lease obligations, excluding current portion	357,825	306,284
Non-recourse notes payable, excluding current portion	8,856,227	8,212,466
Other liabilities	225,552	225,493
<b>TOTAL LIABILITIES</b>	<b>10,741,581</b>	<b>10,041,416</b>
Commitments and contingent liabilities	—	—
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, \$0.50 par value; 350,000,000 shares authorized; 204,930,606 and 208,869,688 shares issued and outstanding as of August 31, 2015 and February 28, 2015, respectively	102,465	104,435
Capital in excess of par value	1,161,678	1,123,520
Accumulated other comprehensive loss	(66,149	) (65,391
Retained earnings	2,012,990	1,994,221
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>3,210,984</b>	<b>3,156,785</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 13,952,565</b>	<b>\$ 13,198,201</b>

See accompanying notes to consolidated financial statements.



CARMAX, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
(Unaudited)

(In thousands)	Six Months Ended August 31	
	2015	2014
<b>OPERATING ACTIVITIES:</b>		
Net earnings	\$354,202	\$324,171
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	65,188	55,766
Share-based compensation expense	33,506	37,778
Provision for loan losses	39,244	36,208
Provision for cancellation reserves	42,459	38,463
Deferred income tax benefit	(738	) (6,530
Loss on disposition of assets and other	1,810	917
Net decrease (increase) in:		
Accounts receivable, net	36,858	(28,936
Inventory	175,325	(67,531
Other current assets	(1,923	) (11,706
Auto loan receivables, net	(720,252	) (732,628
Other assets	371	(313
Net decrease in:		
Accounts payable, accrued expenses and other current liabilities and accrued income taxes	(58,705	) (36,052
Other liabilities	(52,089	) (46,226
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(84,744</b>	<b>) (436,619</b>
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(145,727	) (135,293
Proceeds from sales of assets	1,419	5,829
Increase in restricted cash from collections on auto loan receivables	(40,953	) (37,769
Increase in restricted cash in reserve accounts	(5,484	) (6,640
Release of restricted cash from reserve accounts	1,643	1,634
Purchases of money market securities, net	(6,126	) (8,753
Purchases of trading securities	(4,355	) (3,107
Sales of trading securities	101	306
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(199,482</b>	<b>) (183,793</b>
<b>FINANCING ACTIVITIES:</b>		
Increase in short-term debt, net	1,337	1,647
Proceeds from revolving line of credit and long-term debt	20,000	—
Payments on revolving line of credit and long-term debt	(30,000	) —
Cash paid for debt issuance costs	(2,981	) —
Payments on finance and capital lease obligations	(9,741	) (8,712
Issuances of non-recourse notes payable	5,106,805	3,803,000
Payments on non-recourse notes payable	(4,424,340	) (3,142,735
Repurchase and retirement of common stock	(369,210	) (380,149
Equity issuances	37,157	44,270

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Excess tax benefits from share-based payment arrangements	28,070	29,790
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>357,097</b>	<b>347,111</b>
Increase (decrease) in cash and cash equivalents	72,871	(273,301 )
Cash and cash equivalents at beginning of year	27,606	627,901
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$100,477</b>	<b>\$354,600</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest	\$19,992	\$15,029
Cash paid for income taxes	\$197,379	\$191,401
Non-cash investing and financing activities:		
Increase in accrued capital expenditures	\$9,198	\$18,173
Increase in finance and capital lease obligations	\$61,312	\$5,297
See accompanying notes to consolidated financial statements.		

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CARMAX, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
(Unaudited)

1. 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 vehicle financing through CarMax stores.

We seek to deliver an unrivaled customer experience by offering a broad selection of high quality used vehicles and related products and services at low, no-haggle prices using a customer-friendly sales process in an attractive, modern sales facility. We provide customers with a full range of related products and services, including the appraisal and purchase of vehicles directly from consumers; the financing of vehicle purchases through CAF and third-party financing providers; the sale of extended protection plan (“EPP”) products, which include extended service plans (“ESP”) 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. At select locations we also sell new vehicles under franchise agreements.

2. Accounting Policies

**Basis of Presentation and Use of Estimates.** The accompanying interim unaudited consolidated financial statements include the accounts of CarMax and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, such interim consolidated financial statements reflect all normal recurring adjustments considered necessary to present fairly the financial position and the results of operations and cash flows for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full fiscal year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended February 28, 2015.

The preparation of financial statements in conformity with U.S. 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.

**Cash and Cash Equivalents.** Cash equivalents of \$74.1 million as of August 31, 2015, and \$48,000 as of February 28, 2015, consisted of highly liquid investments with original maturities of three months or less.

**Restricted Cash from Collections on Auto Loan Receivables.** Cash equivalents totaling \$335.1 million as of August 31, 2015, and \$294.1 million as of February 28, 2015, consisted of collections of principal, interest and fee payments on securitized auto loan receivables that are restricted for payment to the securitization investors pursuant to the applicable securitization agreements.

Securitized. We maintain a revolving securitization program composed of two warehouse facilities (“warehouse facilities”) that we use to fund auto loan receivables originated by CAF until we elect to fund them through a term securitization or alternative funding arrangement. We sell the auto loan receivables to one of two 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 securitized receivables.

We typically use term securitizations to provide long-term funding for most of the auto loan receivables initially securitized 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 term securitizations (“securitization vehicles”) as secured borrowings, which result in recording the auto loan receivables and the related non-recourse notes payable on our consolidated balance sheets.

The securitized receivables can only be used as collateral to settle obligations of the securitization vehicles. The securitization vehicles and investors have no recourse to our assets beyond the securitized receivables, the amounts on deposit in reserve accounts and the restricted cash from collections on auto loan receivables. We have not provided financial or other support to the securitization 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 securitization vehicles.

See Notes 4 and 10 for additional information on auto loan receivables and non-recourse notes payable.

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

**Property and Equipment.** Property and equipment is stated at cost less accumulated depreciation and amortization of \$876.3 million and \$822.7 million as of August 31, 2015 and February 28, 2015, respectively.

**Other Assets.** Other assets includes amounts classified as restricted cash on deposit in reserve accounts and restricted investments. 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 securitized 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 and was \$46.6 million as of August 31, 2015, and \$42.7 million as of February 28, 2015.

Restricted investments includes money market securities primarily held to satisfy certain insurance program requirements, as well as mutual funds held in a rabbi trust established to fund informally our executive deferred compensation plan. Restricted investments totaled \$63.2 million as of August 31, 2015, and \$52.4 million as of February 28, 2015.

**Revenue Recognition.** We recognize revenue when the earnings process is complete, generally either at the time of sale to a customer or upon delivery to a customer. As part of our customer service strategy, we guarantee the retail vehicles we sell with a 5 day, money-back guarantee. We record a reserve for estimated returns based on historical experience and trends.

We also sell ESPs and GAP products on behalf of unrelated third parties, who are the primary obligors, to customers who purchase a vehicle. The ESPs we currently offer on all used vehicles provide coverage of up to 60 months (subject to mileage limitations), while GAP covers the customer for the term of their finance contract. We recognize commission revenue at the time of sale, net of a reserve for estimated contract cancellations. Periodically, we may receive additional commissions based upon the level of

underwriting profits of the third parties who administer the products. These additional commissions are recognized as revenue when received. The reserve for cancellations is evaluated for each product, and is based on forecasted forward cancellation curves utilizing historical experience, recent trends and credit mix of the customer base. Our risk related to contract cancellations is limited to the commissions that we receive. Cancellations fluctuate depending on the volume of 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 7 for additional information on cancellation reserves.

Customers applying for financing who are not approved or are conditionally approved by CAF are generally evaluated by 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.

**Derivative Instruments and Hedging Activities.** We enter into derivative instruments to manage exposures that arise from business activities 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 as either current assets or current liabilities 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.

#### Recent Accounting Pronouncements.

**Effective in Future Periods.** In July 2015, the Financial Accounting Standards Board (“FASB”) issued an accounting pronouncement (FASB ASU 2015-11) which simplifies the subsequent measurement of inventory by replacing the lower of cost or market test with a lower of cost or net realizable value (“NRV”) test. NRV is calculated as the estimated selling price less reasonably predictable costs of completion, disposal and transportation. This pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016, and prospective adoption is required. We will adopt this pronouncement for our fiscal year beginning March 1, 2017. We are still evaluating the effects of this pronouncement on our consolidated financial statements, but do not expect any such impacts to be material.

In August 2015, the FASB issued an accounting pronouncement (FASB ASU 2015-14), which deferred the effective date of FASB ASU 2014-09, Revenue from Contracts with Customers, for all entities by one year. As a result, that accounting standard is now effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. Based on this amendment, we will adopt FASB ASU 2014-09 for our fiscal year beginning March 1, 2018.

In August 2015, the FASB issued an accounting pronouncement (FASB ASU 2015-15) related to the presentation of debt issuance costs. This standard clarifies the guidance set forth in FASB ASU 2015-03, which required that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the debt liability rather than as an asset. The new pronouncement clarifies that debt issuance costs related to line-of-credit arrangements could continue to be presented as an asset and be subsequently amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. We will

consider this clarification in conjunction with our adoption of FASB ASU 2015-03, which will occur for our fiscal year beginning March 1, 2016, and do not expect it to have a material impact on our consolidated financial statements.

3. CarMax Auto Finance

CAF provides financing to qualified retail customers purchasing vehicles at CarMax stores. 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 to fund loans originated by CAF, as discussed in Note 2. 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 such as human resources, administrative services, marketing, information systems, accounting, legal, treasury and executive payroll. 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)	Three Months Ended August 31				Six Months Ended August 31			
	2015	% <sup>(1)</sup>	2014	% <sup>(1)</sup>	2015	% <sup>(1)</sup>	2014	% <sup>(1)</sup>
Interest margin:								
Interest and fee income	\$169.8	7.6	\$150.7	7.8	\$334.6	7.6	\$297.6	7.9
Interest expense	(30.8 )	(1.4 )	(23.9 )	(1.2 )	(58.8 )	(1.3 )	(47.0 )	(1.2 )
Total interest margin	139.0	6.2	126.8	6.6	275.8	6.2	250.6	6.6
Provision for loan losses	(25.6 )	(1.1 )	(20.4 )					