CARMAX INC
Form DEF 14A
May 03, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x　　Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

CarMax, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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CarMax, Inc.

Notice of 2010 Annual Meeting of Shareholders and Proxy Statement

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Dear Fellow CarMax Shareholders:

I cordially invite you to attend the 2010 annual meeting of CarMax, Inc. shareholders. The annual meeting this year will be held on Monday, June 28, 2010, at 1:00 p.m. EDT at the Richmond Marriott West Hotel, 4240 Dominion Boulevard, in Glen Allen, Virginia.

Under Securities and Exchange Commission rules, CarMax has elected to deliver our proxy materials to our shareholders over the Internet. This delivery process will allow us to provide shareholders with the information they need, while at the same time conserving natural resources and lowering the cost of printing and delivery. On or about May 14, 2010, we will mail to our shareholders a Notice of Internet Availability of Proxy Materials (the Notice) containing instructions on how to access our 2010 proxy statement and fiscal 2010 annual report to shareholders. The Notice also provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of the proxy materials by mail.

We will provide live audio coverage of the annual meeting from the CarMax investor relations website at investor.carmax.com. In addition, a replay of the annual meeting will be available at this website after the meeting. We hope that this will allow those of you who are unable to attend the meeting in person to hear CarMax management discuss this year s results.

Whether or not you will be attending the annual meeting, your vote is very important. Please vote. There are four ways that you can cast your ballot by Internet, by telephone, by mail (if you request a paper copy) or in person at the annual meeting.

On behalf of the board of directors, I would like to express our appreciation for your continued interest in CarMax. I look forward to seeing you at the annual meeting.

Sincerely,

William R. Tiefel

Chairman of the Board of Directors

May 3, 2010

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NOTICE OF 2010 ANNUAL MEETING OF SHAREHOLDERS

Meeting Date and Time:	Monday, June 28, 2010, at 1:00 p.m., Eastern Daylight Time
Place:	Richmond Marriott West Hotel 4240 Dominion Boulevard Glen Allen, Virginia 23060
Items of Business:	(1) To elect the following three persons to the board of directors: Ronald E. Blaylock, Keith D. Browning and Thomas G. Stemberg. (2) To ratify the selection of KPMG LLP as our independent registered public accounting firm. (3) To transact any other business that may properly come before the annual meeting or any postponements or adjournments thereof.
Who May Vote:	You may vote if you were a shareholder of CarMax common stock at the close of business on April 23, 2010.

By order of the board of directors,

Eric M. Margolin

Senior Vice President,

General Counsel and Corporate Secretary

May 3, 2010

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QUESTIONS AND ANSWERS ABOUT OUR ANNUAL MEETING AND PROXY STATEMENT

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

1. Why am I receiving these materials?

The company is making this proxy statement, the fiscal 2010 annual report to shareholders and a form of proxy (the proxy materials) available to you in connection with the solicitation of proxies by the board of directors for use at the annual meeting of shareholders of the company to be held on Monday, June 28, 2010 at 1:00 p.m. Eastern Daylight Time, and at any postponement(s) or adjournment(s) thereof. You are invited to attend the annual meeting and are requested to vote on the proposals described in this proxy statement. The annual meeting will be held at the Richmond Marriott West Hotel, 4240 Dominion Boulevard, Glen Allen, Virginia 23060.

2. Why did I receive a notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials?

As permitted by the Securities and Exchange Commission (SEC), we have elected to provide access to our proxy materials primarily over the Internet rather than mailing paper copies of those materials to each shareholder. Accordingly, on or about May 14, 2010, we will mail a Notice of Internet Availability of Proxy Materials (the Notice) to our shareholders to provide website and other information for the purpose of accessing our proxy materials. All shareholders will have the ability to access the proxy materials on the website referred to in the Notice or request to receive a printed or electronic set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice. In addition, shareholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis. We encourage you to take advantage of the availability of the proxy materials on the Internet in order to help reduce the cost and environmental impact of the annual meeting.

3. How can I get electronic access to the proxy materials?

The Notice provides you with instructions regarding how to:

- View our proxy materials for the annual meeting on the Internet.
- Instruct us to send proxy materials to you electronically by email.

Choosing to receive proxy materials by email will save the company the cost of printing and mailing documents to you and will reduce the impact of the company s annual meeting on the environment. If you choose to receive future proxy materials by email, you will receive an email message next year with instructions containing a link to those materials and a link to the proxy voting website. Your election to receive proxy materials by email will remain in effect unless and until you rescind it.

4. What items will be voted on at the 2010 annual meeting?

You will be voting on the following two items of business:

Proposal One: The election of the following three persons to the board of directors: Ronald E. Blaylock, Keith D. Browning and Thomas G. Stemberg.

Proposal Two: The ratification of the selection of KPMG LLP (KPMG) as our independent registered public accounting firm.

Our board of directors recommends that you vote **FOR** each of these proposals. You may also be asked to vote on any other business that may properly come before the annual meeting or any postponements or adjournments thereof.

5. Who is entitled to vote?

All shareholders who owned CarMax common stock at the close of business on April 23, 2010, are entitled to vote at the annual meeting. Each share of common stock

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is entitled to one vote. There were 223,646,161 shares of CarMax common stock outstanding on that date.

6. How many votes must be present to hold the annual meeting?

In order for us to conduct the annual meeting, a majority of our outstanding shares of common stock as of April 23, 2010, must be present in person or by proxy. This is referred to as a quorum. Abstentions and shares held by banks, brokers or nominees that are voted on any matter are included in determining whether a quorum exists.

7. What is the difference between a shareholder of record and a beneficial owner of shares held in street name?

Shareholder of Record. If your shares are registered directly in your name with the company s transfer agent, American Stock Transfer & Trust Company, LLC (AST), you are the shareholder of record with respect to those shares, and the Notice was sent directly to you by the company. If you request printed copies of the proxy materials by mail, you will receive a proxy card.

Beneficial Owner of Shares Held in Street Name. If your shares are held in an account at a brokerage firm, bank, broker-dealer or other similar organization, then you are the beneficial owner of shares held in street name, and the Notice was forwarded to you by that organization. The organization holding your account is considered the shareholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct that organization on how to vote the shares held in your account. If you request printed copies of the proxy materials by mail, you will receive a vote instruction form.

8. How do I vote my shares?

If you are a *shareholder of record* or a participant in our Amended and Restated 2002 Employee Stock Purchase Plan (the ESPP), you may vote in any of the following ways:

By Internet. You may vote online by accessing www.carmaxproxy.com and following the on-screen instructions. You will need the Control Number included on the Notice or on your proxy card, as applicable. You may vote online 24 hours a day. If you vote online, you do not need to return a proxy card.

By Telephone. If you are located in the U.S., you may vote by calling toll free 1-800-PROXIES (1-800-776-9437) and following the instructions. If you are located outside the U.S., call 1-718-921-8500. You will need the Control Number included on the Notice or on your proxy card, as applicable. You may vote by telephone 24 hours a day. If you vote by telephone, you do not need to return a proxy card.

By Mail. If you requested printed copies of the proxy materials, you will receive a proxy card, and you may vote by signing, dating and mailing the proxy card in the envelope provided.

In Person. You may vote in person at the annual meeting by requesting a ballot from the inspector of election at the meeting.

If you are a *beneficial owner of shares held in street name*, you may vote in any of the following ways:

By Internet. You may vote online by following the instructions provided in the Notice. You will need the Control Number included on the Notice or on your vote instruction form, as applicable. You may vote online 24 hours a day. If you vote online, you do not need to return a vote instruction form.

By Telephone. You may vote by telephone by following the instructions provided in the Notice. You will need the Control Number included on the Notice or on your vote instruction form, as applicable. You may vote by telephone 24 hours a day. If you vote by telephone, you do not need to return a vote instruction form.

By Mail. If you requested printed copies of the proxy materials, you will receive a vote instruction form, and you may vote by signing, dating and mailing it in the envelope provided.

In Person. You must obtain a legal proxy from the organization that holds your shares in order to vote your shares in person at the annual meeting. Follow the instructions on the Notice to obtain this legal proxy.

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QUESTIONS AND ANSWERS ABOUT OUR ANNUAL MEETING AND PROXY STATEMENT CONTINUED

For both shareholders of record and beneficial owners of shares held in street name (other than ESPP participants), online and telephone voting is available through 11:59 p.m. ET on Sunday, June 27, 2010. For shares held by ESPP participants in an ESPP account, online and telephone voting is available through 11:59 p.m. ET on Wednesday, June 23, 2010.

9. What will happen if I do not return a proxy or give specific voting instructions?

Shareholders of Record. If you are a shareholder of record and you:

- Do not vote via the Internet, by telephone or by mail, your shares will not be voted unless you attend the annual meeting to vote them in person.

- Sign and return a proxy card without giving specific voting instructions, then the proxy holders will vote your shares in the manner recommended by the board of directors on all matters presented in this proxy statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the annual meeting.

Beneficial Owners of Shares Held in Street Name or Participants in the ESPP. If you are a beneficial owner of shares held in street name or a participant in the ESPP and you do not provide the organization that holds your shares with specific voting instructions, under the rules of various national and regional securities exchanges, the organization that holds your shares may generally vote your shares on routine matters but cannot vote your shares on non-routine matters. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, the organization will not have the authority to vote your shares on this matter. This is generally referred to as a broker non-vote.

10. What proposals are considered routine or non-routine ?

As a result of a recent New York Stock Exchange (NYSE) rule change, Proposal One, which in prior years had been a routine matter, will now be considered non-routine. A broker or other nominee cannot vote

without instructions on a non-routine matter, and therefore there may be broker non-votes on Proposal One.

Proposal Two is a matter that the company believes will be considered routine. A broker or other nominee may generally vote on a routine matter, and therefore no broker non-votes are expected to exist in connection with Proposal Two.

11. What if I change my mind after I vote?

You may revoke your proxy at any time by submitting a subsequent vote using the same methods described in Question 8.

12. How many votes are needed to approve each of the two proposals?

Proposal One: The three nominees receiving the highest number of **FOR** votes will be elected directors. Votes that are withheld and shares that are not voted in the election of directors will have no effect on the election of directors.

Proposal Two: The ratification of the selection of KPMG as our independent registered public accounting firm must be approved by the affirmative vote of a majority of the votes cast. Abstentions and shares held in street name that are not voted on the proposal will not be counted in determining the number of votes cast for this proposal.

13. Who can attend the annual meeting?

The annual meeting is open to all holders of CarMax common stock as of April 23, 2010. Shareholders who plan to attend the annual meeting may be asked to present valid picture identification, such as a driver s license or passport. If you are a beneficial shareholder, you must bring a copy of a brokerage statement indicating ownership of CarMax shares as of April 23, 2010. If you are an authorized proxy or if you want to vote in person the shares that you hold in street name, you must present the proper documentation from your bank or broker. Cameras, recording devices and other electronic devices will not be permitted at the annual meeting.

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14. Who pays the cost of proxy solicitation?

CarMax pays the cost of soliciting proxies. We will solicit proxies from our shareholders, and, after the initial mail solicitation, some of our employees or agents may contact shareholders by telephone, by email or in person. We have retained The Altman Group to solicit proxies for a fee of $7,000 plus reasonable expenses. We will also reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for their reasonable expenses in sending proxy materials to the beneficial owners of our common stock.

15. Who will count the votes?

Representatives from AST, our transfer agent, will tabulate the votes and act as inspector of election at the annual meeting.

16. Could other matters be decided at the annual meeting?

Management and our board of directors are not aware of any matters that may come before the annual meeting other than the two proposals disclosed in this proxy statement. However, if other matters do properly come before the annual meeting, the named proxies will vote in accordance with their best judgment.

17. How do I make a shareholder proposal for the 2011 annual meeting?

Pursuant to applicable SEC rules, for a shareholder proposal to be considered for possible inclusion in the 2011 proxy statement, the corporate secretary of CarMax must receive the proposal in writing no later than January 13, 2011. CarMax plans to hold its 2011 annual meeting on or about June 27, 2011.

Pursuant to our Bylaws, if you wish to bring any matter for consideration before the 2011 annual meeting that is not included in the 2011 proxy statement, you must notify our corporate secretary in writing at CarMax, Inc., 12800 Tuckahoe Creek Parkway, Richmond, Virginia 23238, no earlier than February 1, 2011, and prior to March 1, 2011. Regarding each matter, your notice must meet the conditions set forth in Section 1.3 of our Bylaws. A copy of our Bylaws is available under the Corporate Governance link at investor.carmax.com and also will be provided without charge to any shareholder upon written request to our corporate secretary. If we do not receive proper notice prior to March 1, 2011, the chairman of the annual meeting may exclude the matter and it will not be acted upon at the 2011 annual meeting. If the chairman does not exclude the matter, the named proxies may vote in the manner they believe is appropriate, if permitted by SEC rules.

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PROPOSAL ONE   ELECTION OF DIRECTORS

Our board of directors is divided into three classes with staggered three-year terms. The following individuals have been nominated for election to our board at the 2010 annual meeting:

Nominated for three-year terms expiring at the 2013 annual meeting:

Ronald E. Blaylock
Keith D. Browning
Thomas G. Stemberg

James F. Clingman, Jr. and Hugh G. Robinson were elected to our board in 2007 for a three-year term expiring at the 2010 annual meeting. Mr. Clingman notified us that he will retire from our board effective June 28, 2010. Mr. Robinson also notified us that he planned to retire from our board effective June 28, 2010. However, Mr. Robinson passed away on March 1, 2010.

Your proxy will be voted to elect each of the nominees unless you tell us otherwise or the vote is otherwise prohibited. If any nominee is not available to serve   for reasons such as death or disability   your proxy will be voted for a substitute nominee if the board nominates one. Each nominee has consented to being named in this proxy statement and to serve if elected.

The board of directors recommends a vote **FOR** each of the nominees listed below. Biographical and professional information, including information regarding each person s specific experience, qualifications, attributes or skills that led to the conclusion that this person should serve as a CarMax director, about the nominees and the other directors of the company whose terms of office do not expire this year follows.

Nominees for Election at the 2010 Annual Meeting for Terms Expiring at the 2013 Annual Meeting

RONALD E. BLAYLOCK, 50. Director since 2007.

Founder and Managing Partner of GenNx360 Capital Partners, a private-equity buyout fund, focused on industrial business-to-business companies. Prior to founding GenNx360 in 2006, Mr. Blaylock was chief executive officer of Blaylock & Company, a full-service investment banking firm that he founded in 1993. Previously, Mr. Blaylock held senior management positions with PaineWebber and Citigroup. He is a director of Radio One, Inc. and W. R. Berkley Corporation. Mr. Blaylock s experience managing two successful investment enterprises, as well as his considerable finance experience, qualify him to serve on our board. Further, his qualification as an audit committee financial expert enhances the function of our Audit Committee.

KEITH D. BROWNING, 57. Director since 1997.

Executive Vice President and Chief Financial Officer of CarMax. He joined CarMax in 1996 after spending 14 years at Circuit City Stores, Inc. While at Circuit City, he served as controller for the West Coast Division from 1984 to 1987, assistant controller from 1987 to 1990, corporate controller from 1990 to 1996 and vice president from 1992 to 1996. Mr. Browning s more than 40 years of experience in the retail business, as well as his 14 years of service as our chief financial officer, qualify him to serve on our board. With managerial responsibility for CarMax s accounting and finance operations, including CarMax Auto Finance, he provides the board with detailed insight into the fiscal performance of the company.

THOMAS G. STEMBERG, 61. Director since 2003.

Managing General Partner of the Highland Consumer Fund at Highland Capital Partners, a venture capital firm. From 2005 to 2007, he acted as the Venture Partner of Highland Capital Partners. Mr. Stemberg is the founder and Chairman Emeritus of the Board of Staples, Inc., an office supply superstore retailer. He pioneered the office superstore industry and was chief executive officer of Staples from 1986 to 2002. From 2002 to 2004, Mr. Stemberg served as an executive officer at Staples with the title of Chairman. Mr. Stemberg is a director of PetSmart, Inc., lululemon athletica inc. and Guitar Center, Inc. He previously served as a director of Polycom, Inc. (2002-2007), The NASDAQ Stock Market, Inc. (2002-2007) and Staples, Inc. (1986-2005). Mr. Stemberg s creation and development of the world s leading office products company, a big-box retailer that experienced significant growth and profitability under Mr. Stemberg s leadership, provides meaningful insight and knowledge to CarMax. His prior chief executive experience, his board service with various growth retailers, and his current retail-focused venture capital work, offer a deep understanding of the retail industry and qualify him to serve on our board.

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Directors Whose Terms Expire at the 2011 Annual Meeting

THOMAS J. FOLLIARD, 45. Director since 2006.

President and Chief Executive Officer of CarMax since 2006. He joined CarMax in 1993 as senior buyer and became director of purchasing in 1994. Mr. Folliard was promoted to vice president of merchandising in 1996, senior vice president of store operations in 2000, executive vice president of store operations in 2001 and president and chief executive officer in 2006. As the chief executive of CarMax, Mr. Folliard leads the day-to-day operation of CarMax and is responsible for establishing and executing the company s strategic plans. His significant experience in the auto retail industry, his tenure with CarMax and his motivational leadership of more than 13,000 CarMax associates provide the board with unique insight into the company and qualify him to serve on the board.

SHIRA GOODMAN, 49. Director since 2007.

Executive Vice President, Human Resources of Staples, Inc., an office supply superstore retailer, since 2009. She joined Staples in 1992 and has held a variety of positions of increasing responsibility in general management and marketing, including serving as executive vice president, marketing from 2001 to 2009. From 1986 to 1992, Ms. Goodman worked at Bain & Company in project design, client relationships and case team management. She previously served as a director of Stride Rite Corporation (2002-2007). Ms. Goodman s experience as the chief marketing executive of an internationally renowned retailer, where she developed a significant understanding of the complexities of retail marketing, qualify her to serve on our board. In her current role as a chief human resources officer, she manages a workforce of more than 90,000 employees, which further enhances her value to our board.

W. ROBERT GRAFTON, 69. Director since 2003.

Retired Managing Partner-Chief Executive, Andersen Worldwide S.C. Andersen Worldwide provided global professional auditing and consulting services through its two service entities, Arthur Andersen and Andersen Consulting. He is a retired certified public accountant and joined Arthur Andersen in 1963. He was elected a member of the Board of Partners, Andersen Worldwide in 1991 and chairman of the Board of Partners in 1994. He served as Managing Partner-Chief Executive from 1997 through 2000. Mr. Grafton is currently lead director of DiamondRock Hospitality Company and a director of SRA International, Inc. Mr. Grafton s extensive accounting experience, as well as his role as the chief executive of an international audit and consulting firm with more than 100,000 employees, qualify him to serve on our board. His designation as an audit committee financial expert and his five years of service as our Audit Committee chairman provide significant and consistent leadership to our board.

EDGAR H. GRUBB, 70. Director since 2007.

Retired Executive Vice President and Chief Financial Officer of Transamerica Corporation, a leading insurance and financial services company. He joined Transamerica in 1989, became executive vice president in 1993 and retired in 1999. From 1986 to 1989, he was the senior vice president and chief financial officer of Lucky Stores, Inc. Mr. Grubb is a director of the AAA of Northern California, Nevada and Utah (the NCNU), the NCNU Insurance Bureau, and AAA Club Affiliates, which is a partnership of NCNU, and the Arizona, Oklahoma/South Dakota, Indiana, Mountain West and Northwest Ohio AAA clubs. With meaningful experience as the chief financial officer of a public company, Mr. Grubb provides CarMax with his extensive understanding of complex financial and operational issues that public companies confront. His financial acumen, as well as his demonstrated leadership capabilities, qualify him to serve on our board.

PROPOSAL ONE ELECTION OF DIRECTORS CONTINUED

Directors Whose Terms Expire at the 2012 Annual Meeting

JEFFREY E. GARTEN, 63. Director since 2002.

Juan Trippe Professor in the Practice of International Trade, Finance and Business at the Yale School of Management since July 2005 and Chairman of Garten Rothkopf, an international consulting firm, since October 2005. He was the Dean of the Yale School of Management from 1995 to 2005. He was the United States Undersecretary of Commerce for International Trade from 1993 to 1995 and previously spent 13 years in investment banking with Lehman Brothers and Blackstone Group. He is a director of Aetna Corporation, Credit Suisse Asset Management, the Conference Board and a member of the board of overseers of the International Rescue Committee. Mr. Garten previously served as a director of Alcan, Inc. (2007) and Calpine Corporation (1997-2005). Mr. Garten s record as a distinguished business scholar and teacher, as well as his years of government service and investment banking work, qualify him to serve on our board. His appreciation of corporate governance best practices, as well as his tenure as a CarMax board member, provide wisdom, continuity and value to our board.

VIVIAN M. STEPHENSON, 73. Director since 2006.

Retired Chief Operating Officer of Williams-Sonoma, Inc., a specialty retailer of products for the home, since 2006. She was named the chief operating officer of Williams-Sonoma in 2003. From 2000 to 2003, she served as a consultant to Apple Computer and Williams-Sonoma. She was the chief information officer for Target Corporation from 1995 to 2000. She serves on the Mills College board of trustees and is the chair of the AAA of Northern California, Nevada and Utah board of directors. She serves on the board of the San Francisco Opera Association and on the board of AAA Club Associates. Ms. Stephenson s significant management experience with multiple successful retailers provides leadership and meaningful operational depth to our board. Further, her information technology skills strengthen the board s understanding of the many technology-related issues confronting the company.

BETH A. STEWART, 53. Director since 2002.

Co-managing member of Trewstar, LLC, a private investment company, since 1998. Chief Executive Officer of Storetrax.com, an Internet retail real estate service, since 2001. She was an adjunct professor at Columbia University Graduate School of Business from 1994 to 1996. She previously spent 12 years in investment banking with Goldman, Sachs & Co. She is a director of General Growth Properties, Inc. and Avatar Holdings Inc. Ms. Stewart s expertise in the commercial real estate market, honed through nearly 20 years of service as a director at a national retail-focused REIT and as the chief executive of an on-line retail real estate service, provides meaningful experience to CarMax as a growth retailer and qualifies her to serve on our board. Further, her investment banking experience bolsters the financial depth of our Audit Committee.

WILLIAM R. TIEFEL, 76. Director since 2002.

Chairman of the Board of CarMax since 2007. Retired Vice Chairman of Marriott International, Inc. and Chairman Emeritus of The Ritz-Carlton Hotel Company, L.L.C. since 2002. He joined Marriott Corporation in 1961. He was named president of Marriott Hotels and Resorts in 1989, president of Marriott Lodging in 1992 and vice chairman of Marriott International and chairman of The Ritz-Carlton Hotel Company in 1998. He is a director of Lydian Private Bank. Mr. Tiefel s vast leadership experience with a customer-focused, service-oriented lodging and hospitality enterprise qualify him to serve on our board. His considerable management roles have been valuable to the board as not only a director, but also as the board s chairman.

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CORPORATE GOVERNANCE

Our business and affairs are managed under the direction of the board of directors in accordance with the Virginia Stock Corporation Act, our Articles of Incorporation and our Bylaws. The standing committees of the board of directors are the Audit Committee, the Compensation and Personnel Committee and the Nominating and Governance Committee.

Corporate Governance Policies and Practices

The board of directors is actively involved in shaping our corporate governance. As a result, the board oversees the company s compliance with the reforms initiated by the Sarbanes-Oxley Act of 2002 and the related rules and regulations proposed and adopted by the SEC and the NYSE. In response to the various laws, rules and regulations applicable to the company, and its own views on corporate governance, the board has adopted corporate governance guidelines and a code of business conduct applicable to all company personnel, including members of the board.

Our corporate governance guidelines set forth the practices of the board with respect to its responsibilities, qualifications, performance, access to management and independent advisors, compensation (including director stock ownership guidelines), orientation and continuing education, and management evaluation and succession.

Our code of business conduct contains provisions relating to honest and ethical behavior, including the handling of conflicts of interest between personal and professional relationships, corporate opportunities, the handling of confidential information, fair dealing, protection and proper use of company assets, compliance with laws and other matters. Any amendment to or waiver from a provision of this code for our directors or executive officers will be promptly disclosed under the Corporate Governance link at investor.carmax.com. There were no amendments or waivers in fiscal 2010.

The corporate governance guidelines, code of business conduct and the charters of the Audit Committee, the Compensation and Personnel Committee and the Nominating and Governance Committee are also available under the Corporate Governance link at investor.carmax.com.

A printed copy of these documents is available to any shareholder without charge upon written request to our corporate secretary at CarMax, Inc., 12800 Tuckahoe Creek Parkway, Richmond, Virginia 23238.

Director Independence

As part of our corporate governance guidelines, the board has adopted categorical standards to assist the board in evaluating the independence of each director and determining whether relationships between directors and the company or its subsidiaries (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company) are material. For purposes of these standards, the term immediate family member includes a person s spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law and anyone (other than domestic employees) who shares the person s home. The categorical standards are listed below:

1. A director who is an employee or whose immediate family member is an executive officer of the company is not independent until three years after the end of the employment relationship.

2. A director who receives, or whose immediate family member receives, more than $100,000 per fiscal year in direct compensation from the company, other than the normal compensation and benefits for service as a director (provided this compensation is not contingent in any way on continued service), is not independent until three years after ceasing to receive more than $100,000 in compensation. Compensation received by an immediate family member for service as a non-executive employee of the company is not considered in determining independence under this test.

3. A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, present or former internal or external auditors of the company is not independent until three years after the end of either the affiliation or the auditing relationship.

4. A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of our present

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CORPORATE GOVERNANCE CONTINUED

executives serve on that company s compensation committee is not independent until three years after the end of the service or the employment relationship.

5. A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of another company that makes payments to, or receives payments from, CarMax for property or services in an amount which in any single fiscal year exceeds the greater of $1 million or 2% of the other company s consolidated gross revenues, is not independent until three years after falling below this threshold.

6. A director who serves as an executive officer of a charitable organization that receives contributions from CarMax in any single fiscal year in excess of the greater of $1 million or 2% of the charitable organization s consolidated gross revenues is not independent until three years after falling below this threshold.

In April 2010, our board of directors, after consultation with and upon the recommendation of the Nominating and Governance Committee, affirmatively determined, in its business judgment, that Messrs. Blaylock, Clingman, Garten, Grafton, Grubb, Stemberg and Tiefel and Ms. Goodman, Ms. Stephenson and Ms. Stewart are each independent directors under our independence guidelines and the NYSE independence standards because each director: (1) has no material relationship with the company and (2) satisfies the independence criteria set forth in our independence guidelines and the NYSE listed company manual. In addition, based on our guidelines and the NYSE standards, the board determined that Messrs. Folliard and Browning are not independent because they are both executive officers of CarMax.

Executive Sessions

Our corporate governance guidelines provide that executive sessions, where solely the non-executive directors meet, are to be held at each regularly scheduled board meeting and that non-executive directors may designate, on an annual basis, a director to preside at these sessions. Our non-executive directors met in executive session at each of our regularly scheduled board meetings in fiscal 2010. In June 2009, the board re-elected Mr. Tiefel as its independent chairman of the board and designated him to serve as the presiding director for executive sessions.

Board and Committee Meeting Attendance; Committee Membership

Pursuant to our corporate governance guidelines, directors are expected to attend meetings of the board and of the board committees of which they are members. Our board of directors met six times in fiscal 2010. Each director attended 75% or more of the total number of meetings of the board and of the standing committees on which he or she served. All directors attended the 2009 annual meeting of shareholders, with Ms. Stephenson attending via webcast.

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The table below provides, for fiscal 2010, membership information and the number of meetings held by the board of directors and each of the board s committees. The numbers in each column indicate the number of meetings each director attended within each category.

Director	Board	Audit	Compensation and Personnel	Nominating and Governance
Ronald E. Blaylock	5	10		
Keith D. Browning	6			
James F. Clingman, Jr.	5	11		
Thomas J. Folliard	6			
Jeffrey E. Garten	5			5
Shira Goodman	6			5
W. Robert Grafton	6	12*		
Edgar H. Grubb	6		6	
Hugh G. Robinson	6		6	
Thomas G. Stemberg	6		6*	
Vivian M. Stephenson	6			5*
Beth A. Stewart	6	12		
William R. Tiefel	6*			
Number of Meetings	**6**	**12**	**6**	**5**

* Chairman

Committees of the Board

Audit Committee

The Audit Committee operates under a written charter adopted by the board. This charter sets forth the requirements for membership and the committee s authority, duties and responsibilities. The Audit Committee assists in the board s oversight of (1) the integrity of our consolidated financial statements, (2) our compliance with legal and regulatory requirements, (3) the independent auditors qualifications and independence and (4) the performance of our internal audit function and the independent auditors. The Audit Committee retains, and approves all fees paid to, the independent auditors. The Audit Committee also pre-approves all non-audit engagements of the independent auditors. Each member of the Audit Committee is independent and financially literate, with Messrs. Blaylock and Grafton considered audit committee financial experts, in accordance with the applicable rules of the NYSE, the SEC and our corporate governance guidelines. The committee s report to shareholders can be found on page 51.

Compensation and Personnel Committee

The Compensation and Personnel Committee operates under a written charter adopted by the board. This charter sets forth the requirements for membership and

the committee s authority, duties and responsibilities. The Compensation and Personnel Committee s duties include: (1) the review and approval of salaries, short- and long-term incentives and other benefits and perquisites for our CEO and other executive officers, (2) the administration of our short- and long-term incentive compensation plans and all equity-based plans, (3) the review and approval of the terms of any severance, change-in-control or employment agreements with our executive officers and (4) the ongoing analyses of our executive and director compensation programs. Each member of the Compensation and Personnel Committee is independent in accordance with the applicable rules of the NYSE and our corporate governance guidelines. The committee s report to shareholders can be found on page 28.

Nominating and Governance Committee

The Nominating and Governance Committee operates under a written charter adopted by the board. This charter sets forth the requirements for membership and the committee s authority, duties and responsibilities. The Nominating and Governance Committee (1) identifies individuals qualified to become members of the board, (2) recommends to the board nominees for director to be presented at the annual meetings of shareholders and nominees to fill vacancies on the board, (3) leads the board in the oversight of management succession

CORPORATE GOVERNANCE CONTINUED

planning, including succession planning for the CEO, (4) develops and recommends to the board our corporate governance guidelines and (5) considers director nominees submitted by shareholders in accordance with the procedures outlined on pages 15 and 16. Each member of the Nominating and Governance Committee is independent in accordance with the applicable rules of the NYSE and our corporate governance guidelines.

Executive Committee

In April 2009, the board dissolved the Executive Committee as a standing committee of the board. The board has retained the flexibility to appoint an executive committee in the future to exercise powers of the full board of directors, subject to the limitations of applicable law and our Bylaws.

Board Leadership Structure

Historically at CarMax, two separate individuals have served in the roles of CEO and board chairman. Mr. Folliard has been our CEO since 2006, while Mr. Tiefel has served as our independent chairman of the board since 2007. Mr. Tiefel, who has served on the board since 2002, accepted the role of board chairman during Mr. Folliard s first year as our CEO. As our board chairman, Mr. Tiefel is responsible for chairing board meetings and meetings of shareholders, setting the agendas for board meetings and presiding over executive sessions of the independent directors. Mr. Folliard manages and oversees the day-to-day affairs of the company and directs the formulation and implementation of the company s strategic plans. We believe that this leadership structure is currently the most appropriate for CarMax.

Our board recognizes that, depending on the circumstances, other leadership models might be appropriate. Our corporate governance guidelines state that the board has no fixed policy as to whether the roles of chairman and CEO should be separate, and the board remains free to make this choice in the manner it judges most appropriate for CarMax. These guidelines also provide that in the event that the CEO also serves as chairman, the board will appoint a lead independent director to serve in accordance with the company s Lead Independent Director Charter. The board periodically reviews its leadership structure and elects its chairman annually.

Board s Role in Risk Oversight

In accordance with its charter and the NYSE listing standards, our Audit Committee has primary oversight responsibility of the company s procedures for identifying significant risks or exposures. Our risk management program is directed by management director Mr. Browning, our Executive Vice President and Chief Financial Officer. With the assistance of our management team, Mr. Browning identifies and prioritizes the significant risks facing the company. On an annual basis, he provides a report to the Audit Committee regarding the risk identification and prioritization process.

Following risk identification, the board assigns the oversight of each identified risk to either the full board or a board committee. For each identified risk, management presents regular reports to the full board or to the assigned committee, as appropriate, that detail CarMax s risk monitoring, management and mitigation strategies. Each of our Audit, Compensation and Personnel, and Nominating and Governance committee charters provides that each such committee shall review (a) the risks and exposures over which the committee has been delegated oversight responsibility by the board and (b) the steps management has taken to manage, control and monitor such risks and exposures. We believe that, pursuant to the process detailed above, our board exercises effective oversight of CarMax s risk management function.

Risk and Compensation Policies and Practices

The Compensation and Personnel Committee has reviewed our compensation policies and practices for all associates, the potential risks presented by those policies and practices and the various factors that mitigate those risks. This review included an overview of the compensation arrangements currently in place for our store associates, store management, regional leadership teams, home office and CarMax Auto Finance associates, and executive officers. Following this review, the committee concluded that such policies and practices are not reasonably likely to have a material adverse effect on the company.

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Nominating and Governance Committee Process for Identifying Director Nominees

Candidates for election to our board of directors are considered in order to fill a vacancy on the board or if the board determines that it would be beneficial to add an individual with specific skills or expertise. In identifying potential candidates for nomination to the board, the committee may consider input from several sources, including members of the Nominating and Governance Committee, other board members, the CEO, outside search firms and shareholder recommendations. Nominee candidates are evaluated in the same manner regardless of the source of the recommendation. The Nominating and Governance Committee will conduct an initial evaluation of each candidate. If suitable, the candidate will be interviewed by the committee and may also meet with other board members and company management. If the committee determines a nominee would be a valuable addition to the board, it will make a recommendation to the full board.

Nominating and Governance Committee Criteria for Selection of Directors; Consideration of Diversity

The board and the Nominating and Governance Committee believe that the board should be comprised of directors with varied, complementary backgrounds and that directors should have, at a minimum, business or other relevant expertise that may be useful to the company. The board and Nominating and Governance Committee also believe that directors should possess the highest personal and professional ethics and should be willing and able to devote the requisite amount of time to company business.

When considering nominees for director, the Nominating and Governance Committee takes into account a number of factors, including:

- The size of the existing board.
- The nominee s character, judgment, skill, education, relevant business experience, integrity, reputation and other personal attributes or special talents.
- The nominee s independence from management, extent of existing commitments to other businesses and potential conflicts of interest with other pursuits.
- The nominee s financial and accounting background, to enable the committee to determine whether the nominee would be considered an audit committee financial expert or financially literate under the applicable rules of the NYSE and the SEC.
- Whether the nominee is subject to a disqualifying factor as described in our corporate governance guidelines.

As noted above, in considering director nominees, the Nominating and Governance Committee believes that the board should be comprised of directors with varied, complementary backgrounds, with a particular emphasis on character, judgment, skill, education, relevant business experience, integrity, reputation and other personal attributes or special talents. We address diversity by considering these factors in our director selection process. Neither the board, nor the Nominating and Governance Committee, has a written policy with respect to the consideration of diversity in identifying director nominees.

Process for Shareholder Nomination of Directors

The Nominating and Governance Committee will consider nominees for director suggested by shareholders using the previously described criteria and considering the additional information referred to below. Under our Bylaws, a shareholder wishing to nominate a director at a shareholders meeting must deliver written notice to our corporate secretary stating his/her intention to make a nomination. The notice must be received no later than (a) 120 days in advance of an annual meeting of shareholders or (b) the close of business on the seventh day following the date on which notice of a special meeting for the election of directors is first given to shareholders.

A shareholder s notice of a proposed director nominee should be sent to our corporate secretary at CarMax, Inc., 12800 Tuckahoe Creek Parkway, Richmond, Virginia 23238, and must meet the requirements described in Section 2.3 of our Bylaws, which were revised in fiscal 2009 to clarify and enhance the advance notice requirements applicable to director nominations. A copy

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CORPORATE GOVERNANCE CONTINUED

of our Bylaws is available under the Corporate Governance link at investor.carmax.com and also will be provided without charge to any shareholder upon written request to our corporate secretary.

Process for Shareholder or Interested Party Communication with Directors

Any shareholder or other interested party wishing to contact the board of directors or any individual director may write to William R. Tiefel, chairman of the board,

with a courtesy copy to Eric M. Margolin, corporate secretary, at CarMax, Inc., 12800 Tuckahoe Creek Parkway, Richmond, Virginia 23238. Shareholders and other interested parties may also contact Messrs. Tiefel and Margolin via email at chairman@carmax.com.

Pursuant to the direction of the board of directors, each communication will be screened by Messrs. Tiefel or Margolin and then forwarded to the appropriate board member. If the communication is unrelated to a shareholder issue, it will be forwarded to the appropriate department within the company for further handling.

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COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Although difficult market conditions persisted throughout fiscal 2010, CarMax reported record net earnings and our data indicates that we increased our share of the late-model used vehicle market by more than 10%. There were many factors that contributed to these strong results, including an improvement in sales execution; an increase in margins for both retail and wholesale vehicles; an increase in inventory turns; the achievement of a sustainable reduction in reconditioning costs per vehicle; a substantial increase in CarMax Auto Finance income; and a reduction in SG&A expenses. Our fiscal 2010 earnings performance exceeded our expectations. Consequently, for the first time in three years, we paid annual bonuses to our named executive officers. However, fiscal 2010 base salaries remained unchanged from their fiscal 2009 levels. As detailed below, we revamped our equity compensation program in fiscal 2010. Equity awards made pursuant to our revised program rose somewhat from their fiscal 2009 levels.

Who oversees CarMax s executive compensation plans, policies and programs?

At the direction of the board of directors, the Compensation and Personnel Committee oversees all of our executive and director compensation plans, policies and programs. In fiscal 2010, the following three independent directors served on the committee: Messrs. Stemberg (its chairman), Grubb and Robinson. Following the death of Mr. Robinson, the board appointed Mr. Tiefel to serve on the committee, effective March 22, 2010.

What is the role of the Compensation and Personnel Committee with respect to executive compensation?

As part of its oversight function, the committee reviews and determines all named executive officer compensation, whether short- or long-term, or cash- or equity-based. The committee s role is detailed in its charter, which is available under the Corporate Governance link at investor.carmax.com. The committee s duties include the following:

- Annually review and approve goals and objectives relevant to the compensation of our CEO, evaluate his performance in light of those goals and objectives and set his appropriate compensation level based on that evaluation.
- Annually review the job objectives and job performance of our executive officers.
- Review and approve salaries, short- and long-term incentives and other benefits and perquisites for our CEO and other executive officers.
- Review and approve the terms of any severance, change-in-control or employment agreements with our officers or other key employees.
- Review and make recommendations to the board with respect to incentive compensation plans and equity-based compensation plans.

Periodically review competitive market analyses of our executive compensation program, program design alternatives and significant new trends and issues.

Administer all short- and long-term incentive compensation plans and all equity-based plans.

Review the impact of tax, accounting and regulatory requirements on executive compensation.

Review and discuss our Compensation Discussion and Analysis with management and provide the required committee report for our proxy statement.

Review the risks and exposures over which the committee has been delegated oversight responsibility by the board and the steps management has taken to manage, control and monitor such risks and exposures.

What are the objectives of the company s executive compensation program?

The committee oversees an executive compensation program that is designed to reflect CarMax s pay-for-performance philosophy and that supports and reinforces the company s key operating and strategic objectives. The committee has established the following objectives for our executive compensation program:

Align the interests of executive officers with the financial interests of our shareholders.

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COMPENSATION DISCUSSION AND ANALYSIS CONTINUED

Encourage the achievement of our key strategic, operational and financial goals.

Link incentive compensation to company and stock price performance, which the committee believes promotes a unified vision for senior management and creates common motivation among our executives.
Attract, retain and motivate executives with the qualifications necessary to drive our long-term financial success.

Provide the committee the flexibility to respond to the continually changing environment in which we operate.

What are the key elements of the company s executive compensation program?

The key elements of direct compensation for our named executive officers are base salary, cash awards under an annual incentive plan and long-term incentive awards. Together, these elements comprise total direct compensation.

Base Salary	+	Cash Awards under an Annual Incentive Plan	+	Long-Term Incentive Awards	=	Total Direct Compensation

Named executive officers also are eligible for other elements of compensation, including certain health and welfare programs, perquisites and retirement benefits. The committee considers all elements when evaluating our executive compensation program.

How does each key element of compensation fit into the company s overall compensation objectives?

Each of the three key elements of total direct compensation promotes one or more compensation objectives set forth above. Competitive base salaries help us to attract, retain and motivate executives. Our annual cash incentive awards, which are tied to earnings per share, help to align the interests of our executive officers with the financial interests of our shareholders and encourage the achievement of the company s financial goals. Long-term equity incentive awards directly tie an executive s long-term compensation to the company s stock price, as well as encourage the achievement of our strategic, operational and financial goals.

How do decisions regarding an individual key element of compensation affect decisions regarding the other key elements?

The committee considers each key element of compensation when designing and evaluating our executive compensation program. This consideration ensures that the program will meet its specified objectives. The committee recognizes the impact that an adjustment to one key element of compensation may have on other elements. For example, an increase in a

named executive officer s base salary will result in a larger target incentive amount. However, decisions regarding any one key element of compensation are not determinative of decisions that will be made regarding the other key elements. Further, committee decisions regarding long-term incentive awards and committee decisions regarding base salaries and annual cash incentive awards are generally made at separate committee meetings. Notwithstanding the independence of these decisions, each committee decision regarding the key elements of compensation are made in furtherance of the objectives of the program. The committee did not consider the realized value of equity compensation when designing and evaluating our executive compensation program. This excluded compensation was not a factor in the committee s analysis and decisions regarding total direct compensation and was not used when analyzing the company s position within the peer group percentiles. The committee generally considers the value of equity compensation as an element of the company s executive compensation program at the time of grant of an equity award, not at the time of exercise.

Does the committee delegate any of its authority?

The committee has not delegated any authority with respect to the compensation of the company s executive officers and non-employee directors. However, the

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committee has delegated limited authority to the company s CEO and CFO to grant equity awards to the company s non-executive officer employees. The committee delegated this authority in order to permit the CEO and CFO to award limited equity grants without the specific action of the committee. The committee believes that this delegation of authority allows the company to meet its ongoing business needs in a practical manner.

Pursuant to this delegation, the CEO and CFO have the discretion to make total awards of no more than 75,000 units or shares of the company s common stock between regularly scheduled committee meetings. Any such awards are subject to the company s Employee Equity Grant Policy (the Grant Policy), which may be found at investor.carmax.com under the Corporate Governance link.

What is management s role in the executive compensation process?

Although management does not have any decision-making authority regarding executive compensation, it assists the committee by recommending appropriate base salary levels (except for the CEO), performance objectives and targets, and individual equity award amounts. Management also assists the committee with the preparation of the committee s meeting agendas and prepares materials for those meetings as directed by the committee.

Does the committee use outside advisors?

The committee has retained the services of Hay Group, an independent compensation consultant, in order to obtain access to independent compensation data, analysis and advice. Hay Group was initially engaged by the committee in November 2005 and, from time to time, has presented comprehensive executive compensation reviews to the committee. These presentations generally included a comparison of our executive compensation program with programs used by a peer group of companies as well as a discussion of broader market compensation trends, including market practices with

respect to base salaries, annual bonuses and long-term incentive compensation. Hay Group provides no other services to the company.

In December 2008, the committee retained the services of Frederic W. Cook & Co., Inc. (Cook & Co.), an independent compensation consultant, to assist the committee in the review and evaluation of the company s equity compensation practices. This review and evaluation is further detailed below. Cook & Co. provides no other services to the company.

Notwithstanding the committee s use of outside advisors and management s participation in the executive compensation process, all executive compensation determinations are made by the committee, using its independent judgment and analysis.

Does the committee compare the company s compensation practices to those of other companies?

In January 2010, Hay Group, at the direction of the committee, performed a comprehensive analysis of the total direct compensation for our named executive officers and certain other senior CarMax associates. The study compared the value of each person s total direct compensation to the corresponding compensation awarded to similarly situated personnel within a peer group of companies, as well as to the compensation awarded to executives from a broader group of retail companies, which we refer to as the Hay Group retail group. The peer group consisted of 19 publicly traded companies, which, because we compete within a unique auto retailing market segment and have few similar competitors, includes a mix of big-box retailers and publicly traded auto retail groups. The peer companies fall within a reasonable range (both above and below CarMax) of comparative factors such as revenue, market capitalization, total shareholder return, return on equity and return on investment. This competitive market data provides a frame of reference for the committee when evaluating executive compensation. The composition of this group of companies may vary from year to year as changes occur at the companies within the group or the committee determines that a change is necessary.

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COMPENSATION DISCUSSION AND ANALYSIS CONTINUED

Which companies comprised the peer group for fiscal 2010?

The following companies comprised the peer group:

Advance Auto Parts, Inc.	Dick s Sporting Goods, Inc.	Office Depot, Inc.
Asbury Automotive Group, Inc.	Family Dollar Stores, Inc.	OfficeMax Incorporated
AutoNation, Inc.	Genuine Parts Company	Penske Automotive Group, Inc.
AutoZone, Inc.	Group 1 Automotive, Inc.	PetSmart, Inc.
Barnes & Noble, Inc.	Kohl s Corporation	Staples, Inc.
Bed Bath & Beyond Inc.	Lithia Motors, Inc.	Whole Foods Market, Inc.
Dollar General Corporation		

How does the committee use the peer group data?

Although we do not directly compete with each of the above-listed companies in the consumer marketplace, we often compete with them and others to attract and retain talented executives. Accordingly, the committee finds it useful to review these companies compensation practices in considering and determining CarMax s own compensation policies and practices. The committee generally tries to set base salaries that are competitive within the peer group. The committee employs annual cash incentive awards and long-term incentive compensation to further reward executive officers with total direct compensation above the median of the peer group when the company performs well. The failure to (a) achieve pre-determined earnings per share targets or (b) increase the company s stock price will result in reduced or no realized compensation from the cash incentive award and long-term incentive compensation programs. The committee does not use peer group data as its sole determinant in making compensation decisions. This data is one of many factors that inform the committee s compensation decisions. Other factors include individual performance, company performance, level of seniority and succession planning.

How are base salaries determined?

The committee establishes competitive base salaries to retain key officers and attract new talent that the committee believes are necessary for our long-term financial success. An executive officer s base salary generally reflects the officer s responsibilities, tenure, job

performance and the direct competition for the officer s services. The committee reviews officer base salaries at 12-month intervals, generally in April. When the committee reviews these base salaries, it considers the reports and advice provided by its consultant, as well as the recommendations provided by our CEO (except when setting the CEO s base salary). In addition to these periodic reviews, the committee may at any time review the salary of an executive officer who has received a significant promotion, whose responsibilities have increased significantly or who is believed to be a retention risk. No base salary adjustments were made for fiscal 2010. In light of the difficult economic conditions that the company, and businesses generally, experienced throughout fiscal 2009, the committee maintained fiscal 2009 salary levels into fiscal 2010. Fiscal 2010 base salaries for each of our named executive officers are provided below.

Name

	Fiscal 2010 Base Salary ($)
Thomas J. Folliard	850,000
Keith D. Browning	615,835
Michael K. Dolan	581,622
Joseph S. Kunkel	547,409
Eric M. Margolin	350,000

Does the company provide annual cash incentive awards?

Pursuant to our Annual Performance-Based Bonus Plan, as amended and restated (the Bonus Plan), we may provide annual cash incentive awards to our executive officers. Payments, if any, made under this plan are

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directly tied to the achievement of certain pre-defined financial performance goals. We adopted the Bonus Plan as a mechanism to provide this annual incentive compensation and to preserve the deductibility of this compensation in accordance with Section 162(m) of the Internal Revenue Code and related regulations.

How does the committee determine the amount of annual cash incentive awards?

The amount of the incentive award depends on our actual performance as measured against objective performance goals established by the committee at the beginning of each fiscal year. In May 2009, the committee determined that the threshold, target and maximum performance goals for fiscal 2010 would be based on our fiscal 2010 earnings per share. The committee believes that earnings per share is an appropriate measure for the performance goal because stock price appreciation is generally based on earnings growth. Accordingly, the interests of our management and our shareholders will be aligned.

Each named executive officer s individual incentive award target is set forth in a written agreement with the company, is directly tied to his level of authority and is expressed as a percentage of his base salary. Each named executive officer s base salary, incentive target percentage, and target and maximum incentive amounts for fiscal 2010 is set forth in the table below.

Name	Base Salary ($)	Incentive Target Percentage (%)	Target Incentive Amount ($)	Maximum Incentive Amount ($)
Thomas J. Folliard	850,000	100	850,000	1,700,000
Keith D. Browning	615,835	60	369,501	739,002
Michael K. Dolan	581,622	60	348,973	697,947
Joseph S. Kunkel	547,409	40	218,964	437,927
Eric M. Margolin	350,000	40	140,000	280,000

If the committee determines that an executive officer is eligible for payment under the Bonus Plan because our performance goals have been met, the exact bonus amount is determined by multiplying the target incentive amount by a performance adjustment factor. The performance adjustment factors established by the committee for fiscal 2010 pursuant to the Bonus Plan were:

25% if the threshold performance goal was achieved.

100% if the target performance goal was achieved.

200% if the maximum performance goal was achieved.

If the threshold performance goal is not achieved, no incentive award is paid, as was the case in each of fiscal 2009 and 2008. The performance adjustment factors are prorated when our actual performance exceeds a lower performance goal but not the next higher performance goal. The Bonus Plan provides that the maximum annual amount payable is the lesser of 200% of the executive s base salary or $2,000,000. While the committee limited the maximum performance adjustment factor to 150% in prior fiscal years, it decided to align the maximum performance goal with a maximum performance adjustment factor of 200% for fiscal 2010. In light of then-recessionary conditions and the use of a performance adjustment factor of 0% for two straight fiscal years, the committee determined that a 200% maximum performance adjustment factor should be used for fiscal 2010.

Under the Bonus Plan, the committee may reduce the amount of any award paid to a named executive officer below the amount that otherwise would be payable upon application of the relevant adjustment factor and may decide not to pay an award even when performance goals have been satisfied. Under no circumstances, however, may the committee increase the amount of any award payable under the Bonus Plan above what would be payable to an executive upon application of the relevant adjustment factor.

In May 2009, the committee established the following earnings per share targets for fiscal 2010: $0.10 as the threshold performance goal; $0.25 as the target performance goal; and $0.40 as the maximum performance goal under the Bonus Plan. In fiscal 2009, the company achieved earning per share of $0.27.

When the committee set the earnings per share performance targets, it recognized the continued volatility in the market for asset-backed securitizations as well as the then-current adverse conditions affecting certain domestic auto manufacturers. As a result, the committee determined that the fiscal 2010 earnings per share performance targets would be formulaically adjusted to exclude the effect of certain events, should they occur, on fiscal 2010 earnings per share. The excluded events

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COMPENSATION DISCUSSION AND ANALYSIS CONTINUED

included either favorable or unfavorable adjustments to fiscal 2010 earnings per share resulting from: (a) mark-to-market adjustments to certain subordinated bonds held by the company; (b) changes to the annual discount rate used to measure the fair value of the company s retained interest in certain of its securitized receivables; (c) supplemental inventory markdowns necessitated by the bankruptcy of certain domestic auto manufacturers; and (d) reductions in the recovery values of repossessed vehicles manufactured by certain domestic auto manufacturers. The committee excluded these events because it believed that, while their occurrence could have an effect on the company s fiscal 2010 earnings per share, the effect would not be indicative of management s performance for the year.

Two of the foregoing events occurred in fiscal 2010, namely, favorable mark-to-market adjustments of the company s retained subordinated bonds and a change to the annual discount rate. Together, the adjustments resulting from these events increased fiscal 2010 earnings per share by $0.23. This amount was excluded from earnings per share in calculating the performance target.

In April 2010, the committee certified that CarMax had achieved earnings per share for fiscal 2010 of $1.26. Fiscal 2010 earnings per share were then adjusted downward by $0.23 to exclude the adjustments noted above, resulting in an adjusted earnings per share of $1.03, which exceeded the maximum performance goal. The committee also certified that CarMax had achieved adjusted earnings per share for fiscal 2010 of $1.03. Accordingly, the performance adjustment factor for fiscal 2010 was 200%.

During the last three fiscal years, the average performance adjustment factor has been 67% (200%, 0% and 0% for fiscal years 2010, 2009 and 2008, respectively), meaning that, on average for the past three years, we have paid our named executive officers an annual incentive award of 67% of their respective target incentive amounts.

Does the company provide long-term incentive compensation?

Under our Stock Incentive Plan, the committee grants annual equity awards, historically limited to stock options, to our named executive office