CARMAX INC
Form 10-Q
July 06, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended May 31, 2012

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	**54-1821055**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
12800 TUCKAHOE CREEK PARKWAY,	
RICHMOND, VIRGINIA	**23238**
(Address of principal executive offices)	**(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 x 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 x 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):

Large accelerated filer	x	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 x

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 June 30, 2012
Common Stock, par value $0.50	**228,350,138**

A Table of Contents is included on Page 2 and a separate Exhibit Index is included on Page 37.

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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 May 31 2012	% [2]	2011 [1]	% [2]
SALES AND OPERATING REVENUES:				
Used vehicle sales	$ 2,188,907	78.9	$ 2,071,540	77.3
New vehicle sales	55,457	2.0	61,886	2.3
Wholesale vehicle sales	467,795	16.9	477,794	17.8
Other sales and revenues	62,261	2.2	68,197	2.5
NET SALES AND OPERATING REVENUES	2,774,420	100.0	2,679,417	100.0
Cost of sales	2,392,505	86.2	2,296,322	85.7
GROSS PROFIT	381,915	13.8	383,095	14.3
CARMAX AUTO FINANCE INCOME	75,179	2.7	69,661	2.6
Selling, general and administrative expenses	253,603	9.1	241,655	9.0
Interest expense	8,143	0.3	8,540	0.3
Other income	285		103	
Earnings before income taxes	195,633	7.1	202,664	7.6
Income tax provision	74,887	2.7	77,164	2.9
NET EARNINGS	$ 120,746	4.4	$ 125,500	4.7
WEIGHTED AVERAGE COMMON SHARES:				
Basic	227,773		225,570	
Diluted	231,802		230,278	
NET EARNINGS PER SHARE:				
Basic	$ 0.53		$ 0.56	
Diluted	$ 0.52		$ 0.54	

Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)	Three Months Ended May 31 2012	2011 [1]
NET EARNINGS	$ 120,746	$ 125,500
Other comprehensive income (loss), net of taxes:		
Retirement plans:		
Amortization recognized in net pension expense (net of tax of $40 and $58, respectively)	260	55
Cash flow hedges:		
Effective portion of changes in fair value (net of tax benefit of $1,181 and $2,288, respectively)	(1,831)	(4,125)
Reclassifications to CarMax Auto Finance income	3,235	1,120

Other comprehensive income, net of taxes	1,664	(2,950)
TOTAL COMPREHENSIVE INCOME	$ 122,410	$ 122,550

(1) *As discussed in Note 2, fiscal 2012 reflects the revisions to correct our accounting for sale-leaseback transactions.*

(2) *Percents are calculated as a percentage of net sales and operating revenues and may not equal totals due to rounding.*
See accompanying notes to consolidated financial statements.

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CARMAX, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands except share data)	(Unaudited) May 31, 2012	February 29, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 456,413	$ 442,658
Restricted cash from collections on auto loan receivables	182,316	204,314
Accounts receivable, net	65,705	86,434
Inventory	1,210,196	1,092,592
Deferred income taxes	6,119	9,938
Other current assets	10,258	17,512
TOTAL CURRENT ASSETS	1,931,007	1,853,448
Auto loan receivables, net	5,132,163	4,959,847
Property and equipment, net	1,305,462	1,278,722
Deferred income taxes	130,583	133,134
Other assets	98,948	106,392
TOTAL ASSETS	$ 8,598,163	$ 8,331,543
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 293,924	$ 324,827
Accrued expenses and other current liabilities	108,733	128,973
Accrued income taxes	48,070	3,125
Short-term debt	791	943
Current portion of finance and capital lease obligations	14,730	14,108
Current portion of non-recourse notes payable	152,268	174,337
TOTAL CURRENT LIABILITIES	618,516	646,313
Finance and capital lease obligations, excluding current portion	349,648	353,566
Non-recourse notes payable, excluding current portion	4,672,921	4,509,752
Other liabilities	136,730	148,800
TOTAL LIABILITIES	5,777,815	5,658,431
Commitments and contingent liabilities		
SHAREHOLDERS EQUITY:		
Common stock, $0.50 par value; 350,000,000 shares authorized; 228,305,488 and 227,118,666 shares issued and outstanding as of May 31, 2012 and February 29, 2012, respectively	114,153	113,559
Capital in excess of par value	901,725	877,493
Accumulated other comprehensive loss	(60,795)	(62,459)
Retained earnings	1,865,265	1,744,519
TOTAL SHAREHOLDERS EQUITY	2,820,348	2,673,112
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 8,598,163	$ 8,331,543

See accompanying notes to consolidated financial statements.

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CARMAX, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)	As of May 31 2012	2011 (1)
OPERATING ACTIVITIES:		
Net earnings	$ 120,746	$ 125,500
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	22,982	19,629
Share-based compensation expense	15,592	15,010
Provision for loan losses	9,176	(1,047)
Loss on disposition of assets	192	191
Deferred income tax provision	7,511	8,426
Net decrease (increase) in:		
Accounts receivable, net	20,729	34,539
Inventory	(117,604)	(66,864)
Other current assets	7,242	24,128
Auto loan receivables, net	(181,492)	(161,990)
Other assets	2,225	(3,034)
Net (decrease) increase in:		
Accounts payable, accrued expenses and other current liabilities and accrued income taxes	(7,641)	40,920
Other liabilities	(15,178)	(10,504)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(115,520)	24,904
INVESTING ACTIVITIES:		
Capital expenditures	(47,636)	(31,046)
Decrease (increase) in restricted cash from collections on auto loan receivables	21,998	(9,044)
Increase in restricted cash in reserve accounts	(236)	(2,582)
Release of restricted cash from reserve accounts	6,382	3,193
Sales of money market securities, net	169	
Purchases of investments available-for-sale	(1,096)	
NET CASH USED IN INVESTING ACTIVITIES	(20,419)	(39,479)
FINANCING ACTIVITIES:		
(Decrease) increase in short-term debt, net	(152)	170
Payments on finance and capital lease obligations	(3,296)	(2,997)
Issuances of non-recourse notes payable	698,000	1,234,000
Payments on non-recourse notes payable	(556,900)	(1,105,599)
Equity issuances, net	2,529	(2,132)
Excess tax benefits from share-based payment arrangements	9,513	6,015
NET CASH PROVIDED BY FINANCING ACTIVITIES	149,694	129,457
Increase in cash and cash equivalents	13,755	114,882
Cash and cash equivalents at beginning of year	442,658	41,121
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 456,413	$ 156,003

(1) *As discussed in Note 2, fiscal 2012 reflects the revisions to correct our accounting for sale-leaseback transactions.*
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 were the first used vehicle retailer to offer a large selection of high quality used vehicles at competitively low, no-haggle prices using a customer-friendly sales process in an attractive, modern sales facility. At select locations we also sell new vehicles under various franchise agreements. 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 our own finance operation, CarMax Auto Finance (CAF), and third-party financing providers; the sale of extended service plans (ESP), guaranteed asset protection (GAP) and accessories; 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.

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 29, 2012.

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 $443.2 million as of May 31, 2012, and $429.3 million as of February 29, 2012, consisted of highly liquid investments with original maturities of three months or less.

Restricted Cash from Collections on Auto Loan Receivables. Cash accounts totaling $182.3 million as of May 31, 2012, and $204.3 million as of February 29, 2012, consisted of collections of principal and interest payments on securitized auto loan receivables that are restricted for payment to the securitization investors pursuant to the applicable securitization agreements.

Securitizations. 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 they are funded through a term securitization or alternative funding arrangement. We sell the auto loan receivables to a wholly owned, bankruptcy-remote, special purpose entity that transfers an undivided percentage ownership interest in the receivables, but not the receivables themselves, to entities formed by third-party investors (bank conduits). The bank conduits generally 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 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 receivables. 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.

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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 to the investors 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 or investors 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 9 for additional information on auto loan receivables and non-recourse notes payable.

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

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. See Note 3 for additional information on CAF income.

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 was $39.2 million as of May 31, 2012, and $45.3 million as of February 29, 2012.

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 was $32.3 million as of May 31, 2012, and $31.4 million as of February 29, 2012.

Finance Lease Obligations. As reported in our Annual Report on Form 10-K for fiscal 2012, we revised our consolidated financial statements to correct our accounting for sale-leaseback transactions. The revisions resulted from the misapplication of the sale-leaseback provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 840, *Leases*, related to transactions we entered into between fiscal 1995 and 2009. We determined that our financial statements were not materially affected by the correction. The following tables summarize the impact of the revisions on the major financial statement line items for the three months ended May 31, 2011.

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CONSOLIDATED STATEMENT OF EARNINGS

	Three Months Ended May 31, 2011		
(In thousands except per share data)	**Previously Reported**	**Adjustments**	**Revised**
Selling, general and administrative expenses	$ 248,205	$ (6,550)	$ 241,655
Interest expense	$ 791	$ 7,749	$ 8,540
Earnings before income taxes	$ 203,863	$ (1,199)	$ 202,664
Income tax provision	$ 77,575	$ (411)	$ 77,164
Net earnings	$ 126,288	$ (788)	$ 125,500
Net Earnings Per Share:			
Basic	$ 0.56	$	$ 0.56
Diluted	$ 0.55	$ (0.01)	$ 0.54

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three Months Ended May 31, 2011		
(In thousands)	**Previously Reported**	**Adjustments**	**Revised**
Net cash provided by operating activities	$ 22,092	$ 2,812	$ 24,904
Net cash provided by financing activities	$ 132,269	$ (2,812)	$ 129,457
Increase in cash and cash equivalents	$ 114,882	$	$ 114,882

Derivative Instruments and Hedging Activities. We enter into derivative instruments to manage exposures that arise from business activities 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. 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. In April 2011, the FASB issued an accounting pronouncement related to transfers and servicing (FASB ASC Topic 860), which removes the assessment of effective control criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The guidance in this pronouncement is effective prospectively for transactions, or modifications of existing transactions, that occur on or after the first interim or annual period beginning on or after December 15, 2011. We adopted this pronouncement for our fiscal year beginning March 1, 2012, and there was no effect on our consolidated financial statements.

In May 2011, the FASB issued an accounting pronouncement related to fair value measurement (FASB ASC Topic 820), which amends current guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amendments generally represent clarification of FASB ASC Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this pronouncement for our fiscal year beginning March 1, 2012, and there was no effect on our consolidated financial statements.

In June 2011, the FASB issued an accounting pronouncement, as amended December 2011, that provides new guidance on the presentation of comprehensive income (FASB ASC Topic 220) in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. The provisions for this pronouncement as amended are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this amended pronouncement for our fiscal year beginning March 1, 2012. We have included the additional required statement for our first quarter ended May 31, 2012.

In September 2011, the FASB issued an accounting pronouncement related to intangibles goodwill and other (FASB ASC Topic 350), which allows for companies to first consider qualitative factors as a basis for assessing impairment and determining the necessity of a detailed impairment test. The provisions for this pronouncement are effective for fiscal years beginning after December 15, 2011, with early adoption permitted. We adopted this pronouncement for our fiscal year beginning March 1, 2012, and there was no effect on our consolidated financial statements.

In December 2011, the FASB issued an accounting pronouncement related to offsetting of assets and liabilities on the balance sheet (FASB ASC Topic 210). The amendments require additional disclosures related to offsetting either in accordance with U.S. GAAP or master netting arrangements. The provisions for this pronouncement are effective for fiscal years, and interim periods within those years, beginning after January 1, 2013. We will adopt this pronouncement for our fiscal year beginning March 1, 2013. We do not expect this pronouncement to have a material effect on our consolidated financial statements.

3. CarMax Auto Finance Income

	Three Months Ended May 31			
(In millions)	**2012**	**%** [(1)]	**2011**	**%** [(1)]
Interest margin:				
Interest and fee income	$ 120.3	9.5	$ 107.9	9.8
Interest expense	(25.1)	(2.0)	(28.5)	(2.6)
Total interest margin	95.2	7.5	79.4	7.2
Provision for loan losses	(9.2)	(0.7)	1.0	0.1
Total interest margin after provision for loan losses	86.0	6.8	80.4	7.3
Other income			0.7	0.1
Direct expenses:				
Payroll and fringe benefit expense	(5.3)	(0.4)	(5.3)	(0.5)
Other direct expenses	(5.5)	(0.4)	(6.1)	(0.6)
Total direct expenses	(10.8)	(0.9)	(11.4)	(1.0)
CarMax Auto Finance income	$ 75.2	5.9	$ 69.7	6.4
Total average managed receivables	$ 5,075.2		$ 4,387.8	

(1) *Annualized percent of total average managed receivables.*

CAF provides financing for qualified customers at competitive market rates of interest. We securitize substantially all of the 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 or income. We present this information on a direct basis to avoid making arbitrary decisions regarding the indirect benefits or costs that could be attributed to CAF. Examples of indirect costs not included are retail store expenses and corporate expenses such as human resources, administrative services, marketing, information systems, accounting, legal, treasury and executive payroll.

4. Auto Loan Receivables

Auto loan receivables include amounts due from customers primarily related to used retail vehicle sales financed through CAF and are presented net of an allowance for estimated loan losses. We use warehouse facilities to fund auto loan receivables originated by CAF until they are funded through a term securitization or alternative funding arrangement. The majority of these amounts serve as collateral for the related non-recourse notes payable of $4.83 billion as of May 31, 2012, and $4.68 billion as of February 29, 2012. See Notes 2 and 9 for additional information on securitizations and non-recourse notes payable.

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Auto Loan Receivables, Net

(In millions)	As of May 31 2012	As of May 31 2011	As of February 29 or 28 2012	As of February 29 or 28 2011
Warehouse facilities	$ 1,251.0	$ 924.0	$ 553.0	$ 943.0
Term securitizations	3,607.9	3,332.1	4,211.8	3,193.1
Other receivables (1)	295.3	234.7	217.0	198.5
Total ending managed receivables	5,154.2	4,490.8	4,981.8	4,334.6
Accrued interest and fees	25.8	23.6	23.1	20.9
Other	(1.2)	3.5	(1.8)	4.0
Less allowance for loan losses	(46.6)	(34.3)	(43.3)	(38.9)
Auto loan receivables, net	$ 5,132.2	$ 4,483.6	$ 4,959.8	$ 4,320.6

(1) *Other receivables includes receivables not funded through the warehouse facilities or term securitizations.*

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

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

Ending Managed Receivables by Major Credit Grade

(In millions)	As of May 31 2012 (1)	% (2)	2011 (1)	% (2)	As of February 29 or 28 2012 (1)	% (2)	2011 (1)	% (2)
A	$ 2,492.1	48.3	$ 2,306.8	51.4	$ 2,452.8	49.2	$ 2,234.1	51.5
B	2,005.0	38.9	1,737.2	38.7	1,923.6	38.6	1,668.0	38.5
C and other	657.1	12.8	446.8	9.9	605.4	12.2	432.5	10.0
Total ending managed receivables	$ 5,154.2	100.0	$ 4,490.8	100.0	$ 4,981.8	100.0	$ 4,334.6	100.0

(1) *Classified based on credit grade assigned when customers were initially approved for financing.*

(2) *Percent of total ending managed receivables.*

Allowance for Loan Losses