

CARMAX INC
Form SC 13G/A
October 05, 2007

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

SCHEDULE 13G

OMB APPROVAL
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**Under the Securities Exchange Act of 1934
(Amendment No. 9)***

CarMax Inc.

(Name of Issuer)

Common

(Title of Class of Securities)

143130102

(CUSIP Number)

September 30, 2007

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- ☒ Rule 13d-1(b)
- ☐ Rule 13d-1(c)
- ☐ Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

CUSIP No. 143130102

- | | | |
|-----|---|--------------------------|
| 1. | Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only) | |
| | PRIMECAP Management Company 95-3868081 | |
| 2. | Check the Appropriate Box if a Member of a Group (See Instructions) | |
| | (a) | <input type="radio"/> |
| | (b) | <input type="radio"/> |
| 3. | SEC Use Only | |
| 4. | Citizenship or Place of Organization | |
| | 225 South Lake Ave., #400, Pasadena, CA 91101 | |
| | 5. | Sole Voting Power |
| | | 5,250,920 |
| | 6. | Shared Voting Power |
| | | 0 |
| | 7. | Sole Dispositive Power |
| | | 11,039,620 |
| | 8. | Shared Dispositive Power |
| | | 0 |
| 9. | Aggregate Amount Beneficially Owned by Each Reporting Person | |
| | 11,039,620 | |
| 10. | Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions) <input type="radio"/> | |
| 11. | Percent of Class Represented by Amount in Row (9) | |
| | 5.07% | |
| 12. | Type of Reporting Person (See Instructions) | |
| | IA | |

Item 1.

- (a) Name of Issuer
CarMax Inc.
- (b) Address of Issuer's Principal Executive Offices
12800 Tuckahoe Creek Pkwy., Richmond, VA 23238

Item 2.

- (a) Name of Person Filing
PRIMECAP Management Company
- (b) Address of Principal Business Office or, if none, Residence
225 South Lake Ave., #400, Pasadena, CA 91101
- (c) Citizenship
U.S.A.
- (d) Title of Class of Securities
Common
- (e) CUSIP Number
143130102

Item 3.

- If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:**
- (a) ☐ Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).
 - (b) ☐ Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).
 - (c) ☐ Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).
 - (d) ☐ Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).
 - (e) ☒ An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E);
 - (f) ☐ An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F);
 - (g) ☐ A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
 - (h) ☐ A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
 - (i) ☐ A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
 - (j) ☐ Group, in accordance with §240.13d-1(b)(1)(ii)(J).

Item 4. Ownership

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

- | | | |
|-------|---|------------|
| (a) | Amount beneficially owned: | 11,039,620 |
| (b) | Percent of class: | 5.07% |
| (c) | Number of shares as to which the person has: | 0 |
| (i) | Sole power to vote or to direct the vote | 5,250,920 |
| (ii) | Shared power to vote or to direct the vote | 0 |
| (iii) | Sole power to dispose or to direct the disposition of | 11,039,620 |
| (iv) | Shared power to dispose or to direct the disposition of | 0 |

Instruction. For computations regarding securities which represent a right to acquire an underlying security *see* §240.13d-3(d)(1).

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following ☐.

Instruction: Dissolution of a group requires a response to this item.

Item 6. Ownership of More than Five Percent on Behalf of Another Person

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than five percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company

If a parent holding company has filed this schedule, pursuant to Rule 13d-1(b)(ii)(G), so indicate under Item 3(g) and attach an exhibit stating the identity and the Item 3 classification of the relevant subsidiary. If a parent holding company has filed this schedule pursuant to Rule 13d-1(c) or Rule 13d-1(d), attach an exhibit stating the identification of the relevant subsidiary.

Item 8. Identification and Classification of Members of the Group

If a group has filed this schedule pursuant to §240.13d-1(b)(1)(ii)(J), so indicate under Item 3(j) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to §240.13d-1(c) or §240.13d-1(d), attach an exhibit stating the identity of each member of the group.

Item 9. Notice of Dissolution of Group

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity. See Item 5.

Item 10. Certification

- (a) The following certification shall be included if the statement is filed pursuant to §240.13d-1(b):

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and

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were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

(b) The following certification shall be included if the statement is filed pursuant to §240.13d-1(c):

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

October 3, 2007
Date

/s/ Karen Chen
Signature

Karen Chen, CCO
Name/Title

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

NOTE: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. *See*

§240.13d-7 for other parties for whom copies are to be sent.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (See 18 U.S.C. 1001)

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-----	January 1, 1999	6,767,540	\$ 819	\$ 17,364	\$ 5,553
\$ (112)	\$ (5,841)	\$ 17,783	Net income -- -- -- 797 -- -- 797	Minimum pension liability adjustment, net of tax -- -- -- 112 -- 112	Treasury stock purchases (55,321) -- -- -- (139) (139)
-----	December 31, 1999	6,712,219	819	17,364	6,350 -- (5,980) 18,553
Net loss -- -- -- (1,240) -- -- (1,240)	Treasury stock purchases (10) -- -- -- --				
-----	December 31, 2000	6,712,209	819	17,364	5,110 -- (5,980) 17,313
Net income -- -- -- 289 -- -- 289	Treasury stock purchases (50,000) -- -- -- (49) (49)	Common stock warrants issued -- -- 100 -- -- 100	Shares outstanding adjustment 18,616		
-----	December 31, 2001	6,680,825	\$ 819	\$ 17,464	\$ 5,399 -- \$ (6,029) \$ 17,653

See notes to consolidated financial statements. FS-12 Consolidated Statements of Cash Flows Years Ended December 31 ----- (Dollars in Thousands) 2001 2000 1999

Signature

----- Operating Activities Net
income (loss) \$ 289 \$ (1,240) \$ 797 Loss (income) from discontinued operations -- 2,117 (258) Depreciation and
amortization 3,427 2,916 2,598 Loss on involuntary conversion of assets -- -- 100 Deferred income taxes 109 200 461
Gain on disposal of assets (11) (53) (13) Gain on sale of securities -- -- (23) Changes in assets and liabilities: Accounts
receivable, net 600 (104) 572 Inventories and other assets 493 (865) (510) Accounts payable, accrued liabilities and
other (264) 158 (550) Net cash provided by continuing operations 4,643 3,129 3,174 Net cash (used in) provided by
discontinued operations -- (975) 298

----- Cash Provided by
Operating Activities 4,643 2,154 3,472

----- Investing Activities Net
proceeds from sale of discontinued operations -- 371 -- Capital expenditures (3,297) (9,463) (5,264) Proceeds from
sale of assets 3 259 13 Sale of securities -- -- 510 Net cash used in continuing operations (3,294) (8,833) (4,741) Net
cash used in discontinued operations -- (254) (247)

----- Cash Used in Investing
Activities (3,294) (9,087) (4,988)

----- Financing Activities
Proceeds from subordinated debt 900 -- -- Proceeds from stock warrants 100 -- -- Proceeds from tax exempt bonds --
9,050 -- Tax exempt bond funds held by bond trustee 1,219 (1,219) -- Deferred financing (76) (321) -- Purchase of
treasury stock (49) -- (139) Payment on bonds (562) -- -- Proceeds from long-term obligations 16,425 16,534 24,333
Payment on long-term obligations (18,510) (17,217) (22,685) Net cash (used in) provided by continuing operations
(553) 6,827 1,509 Net cash used in discontinued operations -- (5) (51)

----- Cash (Used in) Provided
by Financing Activities (553) 6,822 1,458

----- Increase (Decrease) in
Cash and Cash Equivalents 796 (111) (58) Cash and Cash Equivalents at Beginning of Year 57 168 226

----- Cash and Cash Equivalents
at End of Year \$ 853 \$ 57 \$ 168

===== Supplemental Disclosure Interest paid \$ 1,292 \$ 1,082 \$ 781 Income taxes paid \$ 412 \$ 118 \$ 120 Fully depreciated
assets written off \$ -- \$ 81 \$ 146 See notes to consolidated financial statements. FS-13 NOTES TO
CONSOLIDATED FINANCIAL STATEMENTS Years Ended December 31, 2001, 2000, and 1999 DESCRIPTION
OF BUSINESS Kinark Corporation ("Kinark" and the "Company") is engaged in hot dip galvanizing through its
wholly owned subsidiary, North American Galvanizing Company ("NAG"). Subsequent to the sale of the subsidiaries
discussed in Note 1, galvanizing operations represents all of Kinark's business operations. NAG provides metals
corrosion protection with eleven regionally located galvanizing plants. The Company grants unsecured credit to its
customers on terms standard for this industry, typically net 30 to 45 days. (1) DISCONTINUED OPERATIONS On
June 26, 2000, the Company sold its Lake River Corporation ("Lake River") and North American Warehousing
Company ("NAW") subsidiaries, comprising the Company's bulk liquids terminal and public warehousing businesses
for \$371,000 cash. These transactions resulted in a net loss on the disposal of business segments of approximately
\$1,246,000 and \$417,000 for Lake River and NAW, respectively. The Lake River and NAW segments are accounted
for as discontinued operations, and accordingly, amounts in the financial statements and related notes for all periods
shown have been restated to reflect these segments as discontinued operations. Condensed operating results for Lake
River and NAW for the years 2000 (through June 26, 2000) and 1999 were as follows: December 31

----- (DOLLARS IN THOUSANDS) 2000 1999

----- Sales \$ 3,403 \$ 7,217 Earnings (Loss) from operations, net
of taxes of \$(268) in 2000 and \$158 in 1999 \$ (454) \$ 258

===== (2) SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES PRINCIPLES OF CONSOLIDATION. The consolidated financial
statements include the accounts of the Company and its wholly owned subsidiary. All intercompany transactions are
eliminated in consolidation. ESTIMATES. The preparation of financial statements in conformity with accounting
principles generally accepted in the United State of America requires management to make estimates and assumptions

that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses for each of the years. Actual results will be determined based on the outcome of future events and could differ significantly from the estimates. CASH AND CASH EQUIVALENTS. Cash and cash equivalents include interest bearing deposits with original maturities of three months or less. FS-14 INVENTORIES. Inventories consist of raw zinc "pigs," molten zinc in galvanizing kettles and other chemicals and materials used in the galvanizing process. Inventories are stated at the lower of cost or market with market value based on estimated realizable value from the galvanizing process. Zinc cost is determined on a last-in first-out (LIFO) basis. Other inventories are valued primarily on an average cost basis. Inventories consist of the following: (DOLLARS IN THOUSANDS) 2001 2000 -----

Zinc \$ 5,138 \$ 5,604 Other 261 349 ----- \$ 5,399 \$ 5,953

===== The approximate raw zinc replacement cost based on year-end market prices of zinc was \$3,190,000 and \$4,641,000 at December 31, 2001 and 2000, respectively. Management estimates the cost of zinc inventories will be recovered from sales of galvanizing services in the normal course of business. In 2001, inventory quantities were reduced resulting in liquidation of LIFO inventory layers which reduced net income by \$17,000. GOODWILL. Goodwill represents the excess of purchase price over the fair value of net assets acquired in business combinations, and is amortized over 25 years using the straight-line method. DEPRECIATION AND AMORTIZATION. Plant and equipment, including assets under capital leases, are depreciated on the straight-line basis over their estimated useful lives, generally at rates of 2% to 6% for buildings and 10% to 20% for equipment, furnishings, and fixtures. Beginning in 2001 equipment purchased for new galvanizing plants or for significant expansions of existing plants will be depreciated using the units of production method, based on projected total tonnage to be processed over the estimated life of the respective equipment. LONG-LIVED ASSETS. Long-lived assets and certain intangibles to be held and used or disposed of including related goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company has determined that no impairment loss need be recognized for the years ended December 31, 2001, 2000, or 1999. SELF-INSURANCE. The Company is self-insured for workers' compensation and certain health care claims for its active employees. The Company carries excess insurance providing statutory workers' compensation coverage for claims exceeding \$125,000 per occurrence, subject to an aggregate limit on losses. The workers' compensation policy contains a variable dividend plan that could result in decreased premium costs if claims are contained within targeted limits. The reserves for workers' compensation benefits and health care claims represent estimates for reported claims and for claims incurred but not reported. Such estimates are generally based on historical trends and risk assessment methodologies; however, the actual results may vary from these estimates since the evaluation of losses is inherently subjective and susceptible to significant changing factors. REVENUE RECOGNITION. Revenue is recognized when the galvanizing process is completed. Freight billed to customers is recorded as revenue. FS-15 DERIVATIVE FINANCIAL INSTRUMENTS. The Company periodically utilizes derivative instruments which are intended to offset the impact of potential fluctuations in the market price of zinc. The Company has no derivative instruments at December 31, 2001. On January 1, 2001 the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). The statement, as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives, at fair value, as either assets or liabilities in the balance sheet with an offset either to shareholder's equity and comprehensive income or income depending upon the classification of the derivative. The derivative instruments identified at January 1, 2001, under the provisions of SFAS No. 133 had been previously designated in hedging relationships that addressed the variable cash flow exposure of forecasted purchases of zinc. Under the transition provisions of SFAS No. 133, on January 1, 2001 the Company recorded an after-tax, cumulative-effect-type transition charge of \$65,000 to accumulated other comprehensive income related to these derivatives. The transition adjustment was charged to other expense during 2001 as the derivatives expired. The Company did not elect subsequent hedge accounting for the derivatives existing at January 1, 2001. Accordingly, changes in the face value of these derivatives subsequent to January 1, 2001 were recorded in other (income) expense. INCOME TAXES. Net deferred income tax assets and liabilities on the consolidated balance sheet reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and the benefit of net operating loss and other tax credit carryforwards. Valuation allowances are established against

deferred tax assets to the extent management believes it is more likely than not that the assets will not be realized.

NEW ACCOUNTING STANDARDS. In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141") which addresses financial accounting and reporting for business combinations and requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method. Use of the pooling of interests method is no longer permitted. The adoption of SFAS No. 141 did not impact the Company's financial position or results of operations. In July 2001, the FASB also issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") which is fully effective in fiscal years beginning after December 15, 2001, although certain provisions of SFAS No. 142 are applicable to goodwill and other intangible assets acquired in transactions completed after June 30, 2001. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and requires that goodwill and intangibles with an indefinite life no longer be amortized but instead be reviewed, at least annually, for impairment. Goodwill amortization expense in 2001 was \$188,000. The Company has not determined the impact on its financial statements that may result from the adoption of SFAS No. 142. In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This statement is effective for financial statements issued for fiscal years FS-16 beginning after June 15, 2002. The Company has not determined the impact on its financial statements that may result from the adoption of SFAS No. 143. In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") which addresses financial accounting and reporting for the impairment or disposal of long-lived assets by requiring that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The provisions of this statement generally are to be applied prospectively. **RECLASSIFICATION.** Certain 2000 and 1999 amounts were reclassified to conform to the 2001 presentation. (3) **LONG-TERM OBLIGATIONS** December 31

----- (DOLLARS IN THOUSANDS) 2001 2000

-----	Revolving line of credit	\$ 4,759	\$ 6,666	Term loan	3,538
3,407	9.5% note due 2015	22	23	10.0% note due 2001	-- 289
-----	Capital leases	18	36	-----	8,337
-----	10,421	Less current portion (976)	(1,001)	-----	\$ 7,361
-----	\$ 9,420	-----	-----	-----	-----

===== **LONG-TERM DEBT.** In November 2001, the Company amended a three-year bank credit agreement that was scheduled to expire in September 2002. The amended agreement provides (i) a \$9,000,000 maximum revolving line of credit for working capital and general corporate purposes, (ii) a \$3,692,595 term loan and (iii) a \$3,000,000 advancing construction loan facility. At December 31, 2001, no amounts were outstanding under the advancing construction loan facility. The maturity of the revolving loan facility was extended to June 30, 2003; the maturity of the term loan was extended to June 30, 2004. At December 31, 2001, the Company had additional borrowing capacity of \$674,000, net of outstanding irrevocable letters of credit, under the bank revolving line of credit based on the borrowing base calculated under the agreement. At December 31, 2001, the Company had outstanding irrevocable letters of credit for workers' compensation claims totaling \$275,000. Substantially all of the Company's accounts receivable, inventories, fixed assets and the common stock of its subsidiary are pledged as collateral under the agreement, and the credit agreement is secured by a full and unconditional guaranty from NAG. Amounts borrowed under the agreement bear interest at the prime rate of Bank One, Oklahoma or the LIBOR rate, at the option of the Company, subject to a rate margin adjustment determined by the Company's consolidated debt service ratio. In the event the Company fails to maintain a consolidated debt service coverage ratio for any fiscal quarter of at least 1.25 to 1.00, the Applicable LIBOR Rate Margin will be increased to 5.75% basis points and the Applicable Prime FS-17 Rate Margin will be increased to 3.00% basis points. Thereafter, the increased rate margin will remain in effect until such time as the Company has maintained a consolidated debt service coverage ratio greater than or equal to 1.25 to 1.00 for a

subsequent fiscal quarter. In the event the Company fails to maintain a consolidated capital expenditures to EBITDA ratio for any fiscal quarter of at least 1.00 to 1.00, the increase in the Applicable LIBOR Rate Margin ranges from 3.75% to 5.75%, and the increase in the Applicable Prime Rate Margin ranges from 1.00% to 3.00%. Amounts borrowed under the bank credit facilities bore interest ranging from 4.75% to 9.75% during 2001 and 2000, and an effective rate of 4.75% at December 31, 2001 and 9.75% at December 31, 2000. Interest expense capitalized in connection with construction in progress was \$15,979, \$211,966, and \$9,035 in 2001, 2000, and 1999, respectively. Term loan payments are based on thirty-five (35) installments with equal monthly payments of principal and interest, and the loan may be prepaid without penalty. The revolving line of credit may be paid down without penalty, or additional funds may be borrowed up to the revolver limit. The credit agreement requires the Company to maintain compliance with covenant limits for current ratio, debt to tangible net worth ratio, debt service coverage ratio and a capital expenditures ratio. The Company was in compliance with the covenants at December 31, 2001. Aggregate maturities of long-term debt of \$8,319,000, exclusive of capital lease obligations, subordinated notes and bonds are payable as follows: \$958,000 (2002), \$5,763,000 (2003), \$1,583,000 (2004), \$2,000 (2005), \$2,000 (2006) and \$11,000 (thereafter). CAPITAL LEASES. Capital leases consist of a telephone system and material handling equipment used in NAG's operations. (4) BONDS PAYABLE During the first quarter of 2000, the Company issued \$9,050,000 of Harris County Industrial Development Corporation Adjustable Rate Industrial Development Bonds, Series 2000 (the "Bonds"). The Bonds are senior to other debt of the Company. All of the bond proceeds, which were held in trust by Bank One Trust Company, N.A. ("Trustee"), were used by NAG for the purchase of land and construction of a hot dip galvanizing plant in Harris County, Texas. The galvanizing plant was completed and began operation in the first quarter of 2001. The Bonds bear interest at a variable rate (5.25% at December 31, 2001 and 2000) that can be converted to a fixed rate upon certain conditions outlined in the bond agreement. The Bonds are subject to annual sinking fund redemption of \$230,000 that commenced on June 15, 2001, which increases annually thereafter to a maximum redemption of \$960,000 on June 15, 2012. Beginning in January 2001, the Company makes monthly payments of principal and interest of \$86,000 into a sinking fund. The final maturity date of the Bonds is June 15, 2013. The Company has the option of early redemption of the Bonds at par unless the bonds are converted to a fixed interest rate, in which case they are redeemable at a premium during a period specified in the bond agreement. The Company's obligation under the bond agreement is secured through a letter of credit with a bank which must remain in effect as long as any Bonds are outstanding. The letter of credit is collateralized by substantially all the assets of the Company. FS-18 (5) SUBORDINATED DEBT In February 2001, the Company completed a \$1,000,000 Private Placement of unsecured subordinated debt. The Company raised these proceeds to satisfy financing requirements to fund construction of a new galvanizing facility in St. Louis. Participation in the Private Placement was offered to accredited investors, which included the Company's directors and eligible stockholders holding a minimum of 100,000 shares of common stock. The amount outstanding on these notes, net of discount was \$917,000 at December 31, 2001. The notes, which mature February 17, 2006 and bear interest at 10% payable annually, were issued with warrants to purchase 666,666 shares of common stock of the Company. Terms of the warrants, which expire February 17, 2008, permit the holder to purchase shares of the Company's common stock at any time prior to the expiration date. The exercise price of \$.856 per share reflects the fair value of the Company's common stock at the time the warrants were issued, as determined by an independent financial advisor. (6) COMMITMENTS The Company has commenced construction of a new galvanizing plant in St. Louis, Missouri. During the first quarter of 2002, the Company entered into initial contractual commitments totaling approximately \$385,000 relating to this construction. The Company leases its headquarters office, manufacturing buildings and certain equipment under noncancellable operating leases. The operating leases generally provide for renewal options and periodic rate increases based on specified economic indicators and are typically renewed in the normal course of business. Lease expense was \$653,000 in 2001, \$335,000 in 2000, and \$110,000 in 1999. Minimum annual rental commitments at December 31, 2001 are as follows: Capital Operating (DOLLARS IN THOUSANDS) Leases Leases
----- 2002 \$ 18 \$ 615 2003 -- 546 2004 -- 467 2005 -- 440 2006
-- 403 Thereafter -- 379 \$ 18 \$ 2,850 ----- Less: Portion
representing interest (1) ----- Net capitalized lease obligation \$ 17 ===== The Company has commitments with domestic and foreign zinc producers to purchase zinc used in its hot dip galvanizing operations. Commitments for the future delivery of zinc either reflect rates then quoted on the London Metals Exchange and are not subject to price adjustment or are based on such quoted prices at the time of delivery. At December 31, 2001, the aggregate

commitments for the procurement of zinc at fixed prices were \$6.8 million. The Company reviews these fixed price contracts for losses using the same methodology employed to estimate the market value of its zinc inventory. Unpriced commitments for the purchase of zinc were nominal at December 31, 2001. (7) CONTINGENCIES NAG was notified in 1997 by the Illinois Environmental Protection Agency ("IEPA") that it FS-19 was a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Information System (CERCLIS) in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co. ("Sandoval"). The IEPA notice includes NAG as one of 59 organizations which arranged for the treatment and disposal of hazardous substances at Sandoval. Based on current information and the stage of investigation, NAG's share of probable future costs, if any, cannot be estimated at this time. The Company will continue to have additional environmental compliance costs associated with operations in the galvanizing business. The Company is committed to complying with the environmental legislation and regulations affecting its operations. Due to the uncertainties associated with future environmental technologies, regulatory interpretations, and prospective legislative activity, management cannot estimate potential costs in this area. The Company expenses or capitalizes, where appropriate, environmental expenditures that relate to current operations as they are incurred. Such expenditures are expensed when they are attributable to past operations and are not expected to contribute to current or future revenue generation. The Company records liabilities when remediation or other environmental assessment or clean-up efforts are probable and the cost can be reasonably estimated. Various litigation arising in the ordinary course of business is pending against the Company. Management believes that resolution of the Company's litigation and environmental matters should not materially affect the Company's consolidated financial position or liquidity. Should future developments cause the Company to record an additional liability for environmental matters, litigation or customer claims, the recording of such a liability could have a material impact on the results of operations for the period involved. (8) INCOME TAXES The provision for income taxes consists of the following: Years Ended December 31,

	(DOLLARS IN THOUSANDS)	2001	2000	1999
Current	\$ 100	\$ 435	\$ 16	Deferred 109 200 461
Income tax expense	\$ 209	\$ 635	\$ 477	

===== The reconciliation of income taxes at the federal statutory rate to the Company's effective tax rate is as follows: Years Ended December 31, ----- (DOLLARS IN THOUSANDS) 2001 2000 1999

Taxes at statutory rate	\$ 169	\$ 514	\$ 345	State tax
net of federal benefit	20 30 20	Goodwill amortization	71 71 71	Other (51) 20 41
Taxes at effective tax rate	\$ 209	\$ 635	\$ 477	

FS-20 At December 31, 2001, alternative minimum tax credit carryforwards of approximately \$533,000 are available as carryforwards to future years. The tax effects of significant items comprising the Company's net deferred tax asset (liability) consist of the following: December 31, ----- (DOLLARS IN THOUSANDS) 2001 2000 -----

Deferred tax assets: Alternative minimum tax	\$ 533	
\$ 521 Reserves not currently deductible	583 605	1,116
1,126 -----	Deferred tax liabilities: Differences between book	
and tax basis of property	1,352 1,253	\$ (236) \$ (127)
-----	As reported in the balance sheet: Deferred tax assets	\$ 583
\$ 605 Deferred tax liabilities	819 732	\$ (236) \$ (127)

===== (9) STOCK OPTION PLANS At December 31, 2001 and 2000, 1,042,000 shares of the Company's common stock were reserved for issuance under the terms of the stock option plans for key employees and directors. The plans generally provide options to purchase Company stock at fair value as of the date the option is granted. Options generally become exercisable in installments specified by the applicable plan and must be exercised within ten years of the grant date. Number Weighted-Avg. Under Option of Shares Exercise Price -----

Balance at Jan. 1, 1999	487,500	\$ 3.02	Granted 20,000	2.00	Canceled (108,000)	3.46
-----	Balance at Dec. 31, 1999	399,500	2.98	Granted 28,333	1.24	
Canceled (20,500)	3.58	-----	Balance at Dec. 31, 2000	407,333	2.70	
Granted 30,000	1.05	Canceled (60,000)	3.50	-----	Balance at Dec. 31,	

2001 377,333 \$ 2.44 ===== FS-21 At December 31, 2001, 2000, and 1999, options for 347,333, 364,625 and 353,000 shares, respectively, were exercisable. Information about stock options as of December 31, 2001: Options Outstanding

		Weighted-Avg. Range of Number Remaining	
Weighted-Avg. Exercise Prices Outstanding	Contractual Life	Exercise Price	
----- \$1.05 to \$1.31	58,333 9.1 years	\$1.14 \$2.00	15,000 7.5 2.00 \$2.50 to \$3.00
234,500 4.0 2.50	\$3.06 to \$3.50	62,000 5.4 3.30	\$4.50 7,500 2.2 4.50
----- 377,333	=====	Options Exercisable at December 31, 2001	

Weighted-Avg. Number	Exercise Price	Exercisable	
----- \$1.06	7,708 1.25	625 1.31	20,000 2.00
15,000 2.50	233,000 3.00	1,500 3.06	15,000 3.25
15,000 3.38	15,000 3.50	17,000 4.50	7,500
----- 347,333	=====	The Company accounts for its stock option plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", under which no compensation cost has been recognized for stock option awards. Had compensation cost for the Company's stock option plans been determined according to the methodology of Statement of Financial Accounting Standard No.123, "Accounting for Stock Based Compensation" ("SFAS No. 123"), the Company's pro forma net earnings (loss) and basic and diluted earnings (loss) per share for 2001, 2000, and 1999 would have been approximately \$277,000 and \$.04, \$(1,265,500) and \$(.19), and \$776,200 and \$.12, respectively. The estimated weighted average fair value of options granted during 2001, 2000, and 1999 was \$0.55, \$0.67, and \$1.02, per option, respectively. The fair value of options granted under the Company's stock option plans was estimated using the Black-Scholes option-pricing model with the following assumptions used: no dividend yield, expected volatility of 65%, 56% - 60% and 48% for 2001, 2000, and 1999 respectively, risk free interest rate of 5.0% in 2001 and 2000, and 6.8% in 1999; and expected lives of 5 years. The effects of applying SFAS No.123 in this pro forma disclosure are not necessarily indicative of future amounts. FS-22 (10) EARNINGS PER SHARE RECONCILIATION For the Year Ended	

Income Shares Per Share	December 31 (Numerator)	(Denominator)	Amount
1999	Income from continuing operations \$ 539,000	-- -- Basic EPS -- 6,723,903	\$.08 Effect of dilutive stock options
			----- Diluted EPS \$ 539,000 6,723,903 \$.08

===== 2000	Income from continuing operations \$ 877,000	-- -- Basic EPS -- 6,712,212	\$.13 Effect of dilutive stock options -- --
			----- Diluted EPS \$ 877,000 6,712,212 \$.13

===== 2001	Income from continuing operations \$ 289,000	-- -- Basic EPS -- 6,698,972	\$.04 Effect of dilutive stock options and warrants -- 666,666
			----- Diluted EPS \$ 289,000 7,365,638 \$.04

===== The number of options excluded from the calculation of diluted earnings per share due to the option price exceeding the share market value are 347,333, 364,625, and 353,000, at December 31, 2001, 2000, and 1999, respectively. (11)

EMPLOYEE BENEFIT PLAN The Company offers a 401(k) defined contribution plan to its eligible employees. Employees not covered by a bargaining contract become eligible to enroll in this benefit plan after one year of service with the Company. Company contributions to this benefit plan were \$205,000 in 2001, \$243,000 in 2000, and \$260,000 in 1999. Assets of the defined contribution plan consisted of short-term investments, intermediate bonds, long-term bonds and listed stocks. (12) STOCKHOLDERS' EQUITY In August 1998, the Board of Directors authorized the Company to repurchase up to \$1,000,000 of its common stock in open market transactions.

Repurchases of the Company's common stock totaled 50,000 shares at a cost of \$49,000 in 2001 and 55,321 shares at a cost of \$139,000 in 1999. FS-23 (13) FAIR VALUE OF FINANCIAL INSTRUMENTS The carrying value of

financial instruments included in current assets and liabilities approximates fair value. The fair value of the Company's long-term debt is estimated to approximate carrying value based on the borrowing rates currently available to the Company for loans with similar terms and average maturities (14) UNION CONTRACTS NAG's one-year labor agreement with the United Steel Workers Union covering approximately 70 production workers at its Tulsa galvanizing plants expires March 31, 2002, and was extended to facilitate discussions between management and the union representatives. While there can be no assurance, NAG anticipates that a mutually acceptable agreement will result from these discussions. (15) SEGMENT DISCLOSURES Subsequent to the sale of Lake River and NAW in June 2000, the Company's sole business is hot dip galvanizing and coatings, which is conducted through its wholly

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owned subsidiary, North American Galvanizing Company. FS-24 Quarterly Results (Unaudited) Quarterly Results of Operations for the Years Ended December 31, 2001 and 2000 were: 2001

----- (Dollars in Thousands Except per Share Amounts) Mar

31 Jun 30 Sep 30 Dec 31 Total

----- Sales \$ 8,982 \$ 9,262 \$ 9,812 \$ 9,163 \$ 37,219 Gross Profit 2,637 2,635 3,238 2,580 11,090

----- Net Income (Loss) \$ 47 \$ 2 \$ 297 \$ (57) \$ 289 Basic and Diluted Earnings (Loss) per Common Share \$ -- \$ -- \$.04 \$ -- \$.04

----- 2000

----- (Dollars in Thousands Except per Share Amounts) Mar

31 Jun 30 Sep 30 Dec 31 Total

----- Sales \$ 9,202 \$ 10,662 \$ 9,627 \$ 9,378 \$ 38,869 Gross Profit 2,480 3,119 3,022 2,586 11,207

----- Income (Loss) from Continuing Operations (114) 406 474 111 877 (Loss) from Discontinued Operations (46) (2,061) -- (10) (2,117)

----- Net Income (Loss) \$ (160) \$ (1,655) \$ 474 \$ 101 \$ (1,240)

===== Basic and Diluted Earnings (Loss) per Common Share Continuing Operations \$ (.01) \$.06 \$.07 \$.01 \$.13

Discontinued Operations (.01) (.31) -- -- (.32)

----- Net Income (Loss) \$ (.02) \$ (.25) \$.07 \$.01 \$ (.19)

===== Amounts reported for all quarters prior to June 30, 2000 have been revised from amounts originally reported to reflect discontinued operations (refer to Note 1 to the Consolidated Financial Statements). FS-25 SELECTED FINANCIAL HIGHLIGHTS The following is a summary of selected financial data of the Company (Dollars in Thousands, Except per Share Amounts) For The Years Ended December 31, 2001 2000 1999 1998 1997

----- Sales \$ 37,219 \$ 38,869 \$ 37,876 \$ 39,052 \$ 38,633 Operating income 2,071 2,565 1,866 641 945 percent of sales 5.6% 6.6% 4.9% 1.6% 2.4% Net Earnings (Loss) 289 (1,240) 797 600 589 Basic and Diluted Earnings (Loss) per common share .04 (.19) .12 .09 .09 Capital Expenditures 3,297 9,463 5,264 3,249 2,890 Depreciation & Amortization 3,427 2,916 2,598 2,386 2,133 Weighted average shares outstanding* 7,365,638 6,712,212 6,723,903 6,789,597 6,813,068 For The Years Ended December 31, 2001 2000 1999 1998 1997

----- Working Capital \$ 7,606 \$ 7,639 \$ 8,607 \$ 7,683 \$ 6,113 Total Assets 39,092 40,676 33,117 29,949 27,915 Long-Term Obligations 16,178 17,907 9,985 8,578 8,063 Stockholders' Equity 17,653 17,313 18,553 17,783 17,127 Book Value Per Share 2.64 2.58 2.76 2.63 2.53 Common Shares Outstanding 6,680,825 6,712,209 6,712,219 6,767,540 6,778,345

* Weighted average shares outstanding include the dilutive effect of stock options and warrants, if applicable. All amounts for all years presented prior to 2000 have been restated to reflect discontinued operations. FS-26