

TRACTOR SUPPLY CO /DE/
Form 10-K
February 23, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 25, 2010

or

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

For the transition period from _____ to _____.
Commission file number 000-23314

TRACTOR SUPPLY COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

13-3139732
(I.R.S. Employer Identification
No.)

200 Powell Place, Brentwood, Tennessee
(Address of Principal Executive Offices)

37027
(Zip Code)

Registrant's Telephone Number, Including
Area Code:

(615) 440-4000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$.008 par value

Name of each exchange on which registered
NASDAQ Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

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

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YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a 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

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing price of the Common Stock on The NASDAQ Global Select Market on June 25, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was \$2,037,338,136. For purposes of this response, the registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of its Common Stock are the affiliates of the registrant.

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

Class	Outstanding at January 22, 2011
Common Stock, \$.008 par value	72,805,868

Documents Incorporated by Reference:

Portions of the Registrant's definitive Proxy Statement for its 2011 Annual Meeting of Shareholders are incorporated by reference into Part III hereof.

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FORWARD-LOOKING STATEMENTS OR INFORMATION

This Form 10-K and statements included or incorporated by reference in this Form 10-K include certain historical and forward-looking information. The forward-looking statements included are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the “Act”). All statements, other than statements of historical facts, which address activities, events or developments that we expect or anticipate will or may occur in the future, including such things as future capital expenditures (including their amount and nature), business strategy, expansion and growth of the business operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, we are identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written. These factors include, without limitation, general economic conditions affecting consumer spending, the timing and acceptance of new products in the stores, the mix of goods sold, purchase price volatility (including inflationary and deflationary pressures), the ability to increase sales at existing stores, the ability to manage growth and identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the ability to manage expenses, the availability of favorable credit sources, capital market conditions in general, failure to open new stores in the manner currently contemplated, the impact of new stores on our business, competition, weather conditions, the seasonal nature of our business, effective merchandising initiatives and marketing emphasis, the ability to retain vendors, reliance on foreign suppliers, the ability to attract, train and retain qualified employees, product liability and other claims, on-going and potential legal or regulatory proceedings, management of our information systems, effective tax rate changes and results of examination by taxing authorities, the ability to maintain an effective system of internal control over financial reporting and those described in Item 1A. “Risk Factors.” Forward-looking statements are based on currently available information and are based on our current expectations and projections about future events. We undertake no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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PART I

Item 1. Business

Overview

Tractor Supply Company is the largest operator of retail farm and ranch stores in the United States and is focused on supplying the lifestyle needs of recreational farmers and ranchers and those who enjoy the rural lifestyle, as well as tradesmen and small businesses. We operate retail stores under the names Tractor Supply Company and Del's Farm Supply and operate a website under the name TractorSupply.com. Our stores are located in towns outlying major metropolitan markets and in rural communities, and they offer the following comprehensive selection of merchandise:

- Equine, pet and small animal products, including items necessary for their health, care, growth and containment;
 - Hardware, truck, towing and tool products;
- Seasonal products, including lawn and garden items, power equipment, gifts and toys;
 - Maintenance products for agricultural and rural use; and
 - Work/recreational clothing and footwear.

Our Tractor Supply stores typically range in size from 15,500 to 18,500 square feet of inside selling space and additional outside selling space. We use a standard 15,500 square foot prototype for most new purpose-built locations. For new stores located in existing buildings, one of several layout formats is utilized.

Our wholly-owned subsidiary, Del's Farm Supply, LLC ("Del's"), operated 26 stores as of December 25, 2010 in Washington, Oregon, Idaho and Hawaii. Del's stores currently range in size from approximately 2,000 to 6,000 square feet of inside selling space plus additional outside and covered/sheltered selling space.

Tractor Supply Company has one reportable industry segment – farm and ranch retail sales, both at our retail locations and online.

At December 25, 2010, we operated 1,001 retail farm and ranch stores in 44 states.

Seasonality and Weather

Our business is highly seasonal. Historically, our sales and profits have been the highest in the second and fourth fiscal quarters due to the sale of seasonal products. Unseasonable weather, excessive precipitation, drought, and early or late frosts may also affect our sales. We believe, however, that the impact of extreme weather conditions is somewhat mitigated by the geographic dispersion of our stores.

We experience our highest inventory and accounts payable balances during the first fiscal quarter for purchases of seasonal products in anticipation of the spring selling season and again during the third fiscal quarter in anticipation of the winter selling season.

Business Strategy

We believe our sales and earnings growth is a result of executing our business strategy, which includes the following key components:

Market Niche

We have identified a specialized market niche: supplying the lifestyle needs of recreational farmers and ranchers and those who enjoy the rural lifestyle (which we refer to as the "Out Here" lifestyle), as well as tradesmen and small businesses. By focusing our product mix on these core customers, we believe we are differentiated from general

merchandise, home center and other specialty retailers.

Customer Service

We are committed to providing our customers a high level of in-store service through our motivated, well-trained store team members. We believe the ability of our store team members to provide friendly, responsive and seasoned advice helps to promote strong customer loyalty and repeat shopping. As such, we seek to provide our store team members with decision-making authority, product knowledge and training to enable them to meet our customers' needs.

We endeavor to staff our stores with courteous, highly motivated team members and devote considerable resources to training store team members, often in cooperation with our vendors. Our training programs include (i) a full management training program which covers all aspects of our operations, (ii) product knowledge modules produced in conjunction with key vendors, (iii) frequent management skills training classes, (iv) semi-annual store manager meetings with vendor product presentations, (v) vendor sponsored in-store training programs and (vi) ongoing product information updates from our management headquarters, the Store Support Center. We seek to hire and train store team members with farming and ranching backgrounds, with particular emphasis on general maintenance, equine and welding.

Our online shopping site is TractorSupply.com. The availability of certain of our products online provides our customers the ability to purchase products and have them shipped to one of our retail stores, their homes or offices. We believe this capability further enhances customer service and extends our market to areas where our retail stores are not currently located.

We offer proprietary, private label credit cards for individuals and business customers. In addition, we accept cash, checks, debit cards, Visa, MasterCard, American Express and Discover credit cards and gift cards.

Store Environment

Our stores are designed and managed to make shopping an enjoyable experience and to maximize sales and operating efficiencies. Stores utilize several layouts, designed to provide an open environment, optimal product placement and visual display locations. In addition, these layouts allow for departmental space to be easily reallocated and visual displays to be easily changed for seasonal products and promotions. Display and product placement information is sent to stores weekly to ensure quality and uniformity among the stores. Informative signs are located throughout each store to assist customers with purchasing decisions and merchandise location. These signs provide customers with a comparison of product qualities, clear pricing and useful information regarding product benefits and suggestions for appropriate accessories. The general uniformity of our store layouts and visual displays afford our customers a feeling of familiarity and enhances the shopping experience. To further enhance the shopping experience, all of our store team members wear highly visible red vests, aprons or smocks and nametags, and our customer service and checkout counters are conveniently located.

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Merchandising

We offer a differentiated assortment of products for our customers. Our broad product assortment is tailored to meet the regional and geographic needs of our markets, as well as the physical store size. Our full line of product offerings is supported by a strong in-stock inventory position with an average of 15,500 to 19,000 unique products per store. No one product accounted for more than 10% of our sales during 2010.

Our stores carry a wide selection of high quality, nationally recognized, name brand merchandise. We also market a growing list of products under our “private-label programs,” i.e. products manufactured for us by a number of vendors. The trademarks in the private label brand names are owned by us. Our private label brands include:

- Producers Pride and Dumor (livestock feed)
- Retriever, Paws ‘n Claws, and 4health (pet foods)
- Huskee (outdoor power equipment)
- C.E. Schmidt (apparel and footwear)
- Countyline (livestock, farm and ranch equipment)
- Royal Wing (bird feeding supplies)
- Traveller (truck/automotive products)
- Masterhand and JobSmart (tools and tool chests)
- Groundwork (lawn and garden supplies)
- Bit & Bridle (apparel)
- Red Shed (gifts and collectibles)

We believe that the availability of high quality private label products at compelling prices provides superior value for our customers, a strategic advantage for us, and positions us as a destination store.

The following chart indicates the average percentages of sales represented by each of our major product categories during fiscal 2010, 2009 and 2008.

Product Category	Percent of Sales					
	2010		2009 (a)		2008 (a)	
Livestock and Pet	39	%	39	%	37	%
Hardware, Tools and Truck	23		23		24	
Seasonal, Gift and Toy Products	22		22		23	
Clothing and Footwear	10		10		9	
Agriculture	6		6		7	
	100	%	100	%	100	%

(a)Reclassified to conform to current year presentation.

Purchasing

We offer a differentiated assortment of products that are sourced through domestic and international vendors for those seeking to enjoy the “Out Here” lifestyle. Our business is not dependent upon any one vendor or particular group of vendors. We purchase our products from a core group of approximately 700 vendors, with no one vendor representing more than 10% of our purchases during fiscal 2010. Approximately 250 vendors accounted for approximately 90% of our purchases during fiscal 2010. We have not experienced any significant difficulty in obtaining satisfactory alternative sources of supply for our products, and we believe that adequate sources of supply exist at substantially similar costs for nearly all of our products. We have no material long-term contractual commitments with any of our vendors.

We maintain a dedicated inventory management team to focus exclusively on all forecasting and replenishment functions. This centralized direction permits our buying teams to focus more strategic attention toward vendor line reviews, assortment planning and testing of new products and programs. Through the combined efforts of these teams, we have improved our overall inventory productivity and in-stock position.

Over 98% of our purchase orders are transmitted through an electronic data interchange ("EDI") system, and approximately 95% of merchandise vendor invoices are transmitted through EDI. We are expanding the percentage of vendors who electronically transmit invoices and increasing the amount of sales history transmitted.

Distribution

We currently operate a distribution network for supplying our stores with merchandise, and in fiscal 2010 our stores received approximately 67% of our merchandise through this network. Our six distribution centers are located in Indiana, Georgia, Maryland, Texas, Nebraska, and Washington, representing total distribution capacity of 2.9 million square feet. In 2011 we have begun construction on our seventh distribution center, a new 834,000 square foot facility in Kentucky to be operational during the fourth quarter of fiscal 2011.

We manage our inbound and outbound transportation activity in-house through the use of a web-based transportation management system. We utilize several common carriers for store deliveries. We manage our transportation costs through carrier negotiations, the monitoring of transportation routes, and the scheduling of deliveries.

Marketing

We utilize an "everyday value prices" strategy to consistently offer our products at competitive prices complemented by promotions primarily implemented during peak selling seasons. We regularly monitor prices at competing stores and adjust our prices as appropriate.

To generate store traffic and position ourselves as a destination store, we promote broad selections of merchandise with newspaper circulars, customer targeted direct mail and internet offerings. Vendors frequently support these specific programs by offering temporary cost reductions, honoring coupons and funding gift card rebate programs.

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Due to the relatively small size of our stores, increased traffic in the store ensures increased exposure to our products. Our vendors are committed to helping us promote our brand and position ourselves as a destination store. Our vendors provide assistance with product presentation and rack design, brochures, point-of-purchase materials for customers' education and product education for our team members. We also receive funding through contributions and incentives on purchases to promote new stores and earn rebates from vendors on product purchases based on volume.

Competition

We operate in a competitive retail industry. The principal competitive factors include location of stores, price and quality of merchandise, in-stock consistency, merchandise assortment and presentation, and customer service. We compete with general merchandise retailers, home center retailers and other specialty and discount retailers, as well as independently owned retail farm and ranch stores, numerous privately-held regional farm store chains and farm cooperatives. Some of these competitors are units of national or regional chains and may have substantially greater resources and financial capacities than we do. However, we believe we have successfully differentiated ourselves from these entities by focusing on our specialized market niche for customers living the rural lifestyle.

Management and Team Members

As of December 25, 2010, we employed approximately 7,900 full-time and approximately 6,800 part-time team members. We also employ additional part-time team members during peak periods. We are not party to any collective bargaining agreements.

Our store operations are organized into nine regions, including Del's. Each region is led by a regional manager and the region is further organized into districts, which are led by a district manager or area manager. Our regional managers, district managers, area managers, store managers and other distribution and support personnel have contributed significantly to our performance. We have internal advisory boards, one comprised of store managers and the other comprised of district managers. These groups bring a grassroots perspective to operational initiatives and generate chain-wide endorsement of proposed "best-practice" solutions.

We are committed to a continuous improvement program called Tractor Value System ("TVS"). TVS is a business management system that emphasizes, through team member engagement, a focus on continuous improvement. Utilizing the TVS system, we improve processes by embracing change of current practices to reduce cost, shorten lead times, and drive innovation. We have implemented numerous continuous improvement project teams (comprised of team members from all areas of our operations) to evaluate key operations and implement process changes that will improve efficiency, reduce costs and strengthen processes. Our management encourages the participation of all team members in decision-making, regularly solicits input and suggestions from our team members and incorporates suggestions into our improvement activities.

All of our team members participate in one of various incentive programs, which provide the opportunity to receive additional compensation based upon team and/or Company performance. We also provide our team members the opportunity to participate in an employee stock purchase plan and a 401(k) retirement savings plan (we contribute to the 401(k) savings plan solely through a cash match). Additionally, we share in the cost of health insurance provided to our team members, and team members receive a discount on merchandise purchased at our stores.

We encourage a "promote from within" environment when internal resources permit. We also provide internal leadership development programs designed to mentor our high potential team members for continued progress and believe we have satisfactory relationships with our team members. Our district managers, area managers, and store managers have an average length of service of approximately five years. Management believes internal promotions, coupled with the hiring of individuals with previous retail experience, will provide the management structure necessary to support our planned store growth.

Management Information and Control Systems

We have invested considerable resources in our management information and control systems to ensure superior customer service, manage the purchase and distribution of our merchandise and improve our operating efficiencies. Our management information and control systems include a point-of-sale system, a supply chain management and replenishment system, a radio frequency and voice picking system in the distribution centers, a vendor purchase order control system and a merchandise presentation system. These systems are integrated through an enterprise resource planning (“ERP”) system. This ERP system tracks merchandise from initial order through ultimate sale and interfaces with our financial systems.

We continue to evaluate and improve the functionality of our systems to maximize their effectiveness. Such efforts include ongoing hardware and software evaluations and upgrades to support optimal software configurations and application performance. We plan to upgrade our information technology and implement other efficiency-driving system enhancements (including the rollout of a new warehouse management system to distribution centers, implementation of price optimization software, point-of-sale system upgrades, and store and support center hardware refreshes) in 2011. In addition, we will continue to strengthen the security of our information systems and support the areas of store and distribution center expansion. These efforts are directed toward constantly improving the overall business processes and achieving the most efficient and effective use of the systems to manage our operations while ensuring a secure and reliable environment.

Growth Strategy

Our current and long-term growth strategy is to: (1) expand geographic market presence through opening new retail stores, (2) enhance financial performance through same-store sales increases, achieved through targeted merchandising programs with an “everyday value prices” philosophy and supported by strong customer service, (3) enhance product margin through assortment management, vendor management, global sourcing, and optimization of transportation and distribution costs, (4) leverage operating costs, especially advertising, distribution and corporate overhead, (5) expand market opportunities via internet sales, and (6) expand through selective acquisition, as such opportunities arise, to enhance penetration into new and existing markets as a complementary strategy to organic growth.

We have experienced considerable sales growth over the past five years, with a compounded annual growth rate of approximately 12.0%. We project an increase of 80 to 85 new stores in 2011, an increase of approximately 8%. We opened 74 new stores in 2010 and 76 new stores in 2009, an increase of approximately 8% and 9%, respectively.

We operated 1,001 retail farm and ranch stores in 44 states as of December 25, 2010. We have developed a proven method for selecting store sites and have identified over 800 potential additional markets for new Tractor Supply stores in the United States.

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Executive Officers of the Registrant

Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an unnumbered item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 28, 2011.

The following is a list of the names and ages of all executive officers of the registrant, indicating all positions and offices with the registrant held by each such person and each person's principal occupations and employment during at least the past five years:

Name	Position	Age
James F. Wright	Chairman of the Board and Chief Executive Officer	61
Gregory A. Sandfort	President and Chief Merchandising Officer	55
Stanley L. Ruta	Executive Vice President and Chief Operating Officer	59
Anthony F. Crudele	Executive Vice President-Chief Financial Officer and Treasurer	54
Kimberly D. Vella	Senior Vice President and Chief People Officer	44

James F. Wright has served as Chairman of the Board and Chief Executive Officer of the Company since February 2009, and prior to that time served as Chairman of the Board, President and Chief Executive Officer from November 2007 to February 2009, and as President and Chief Executive Officer of the Company from October 2004 to November 2007. Mr. Wright previously served as President and Chief Operating Officer of the Company from October 2000 to October 2004. Mr. Wright has served as a director of the Company since 2002.

Gregory A. Sandfort has served as President and Chief Merchandising Officer of the Company since February 2009, and prior to that time served as Executive Vice President-Chief Merchandising Officer of the Company since November 2007. Mr. Sandfort previously served as President and Chief Operating Officer at Michaels Stores, Inc. from March 2006 to August 2007 and as Vice President – General Merchandise Manager at Michaels Stores, Inc. from January 2004 to February 2006. Mr. Sandfort served as Vice Chairman and Co-Chief Executive Officer of Kleinert's Inc. (d/b/a Buster Brown) from 2002 to 2003 and as a Vice President, General Merchandise Manager for Sears, Roebuck and Co. from 1998 to 2002.

Stanley L. Ruta has served as Executive Vice President and Chief Operating Officer of the Company since February 2009, and prior to that time served as Executive Vice President-Store Operations since January 2007, after having served as Senior Vice President-Store Operations since June 2000 and as Vice President-Store Operations of the Company since 1994.

Anthony F. Crudele has served as Executive Vice President-Chief Financial Officer and Treasurer since January 2007, after having served as Senior Vice President-Chief Financial Officer and Treasurer of the Company since November 2005. Mr. Crudele previously served as Chief Financial Officer at Gibson Guitar from August 2003 to September 2005, as Chief Financial Officer of Xcelerate Corp. from 2000 to January 2003, and at The Sports Authority from 1989 through 1999 (serving as Chief Financial Officer from 1996 through 1999).

Kimberly D. Vella has served as Senior Vice President and Chief People Officer since July 2010, and prior to that time served as Senior Vice President-Human Resources of the Company since January 2007, after having served as Vice President-Human Resources of the Company since October 2001.

Additional Information

We file reports with the Securities and Exchange Commission (“SEC”), including Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports as required. The public may read and copy any materials the Company files with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer and the SEC maintains an Internet site at sec.gov that contains the reports, proxy and information statements, and other information filed electronically.

We make available free of charge through our Internet website, TractorSupply.com, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information provided on our website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

Our code of ethics, which is applicable to all of our team members, including our Chief Executive Officer, Chief Financial Officer and Controller, along with our Corporate Governance Guidelines and the charters of our Audit, Compensation, Nominating and Corporate Governance Committees of our Board of Directors, is posted on our website.

Item 1A. Risk Factors

Our business faces many risks. Those risks which we are currently aware and we deem to be material are described below. If any of the events or circumstances described in the following risk factors occur, our business, financial condition or results of operations may significantly suffer, and the trading price of our common stock could decline. These risk factors should be read in conjunction with the other information in this Form 10-K.

General economic conditions may adversely affect our financial performance.

Our results of operations may be sensitive to changes in overall economic conditions that impact consumer spending, including discretionary spending. Economic conditions affecting disposable consumer income such as employment levels, business conditions, interest rates, tax rates, fuel and energy costs, higher labor and healthcare costs, the impact of natural disasters or acts of terrorism, and other matters could reduce consumer spending or cause consumers to shift their spending to lower-priced competitors. A general reduction in the level of discretionary spending or shifts in consumer discretionary spending to our competitors could adversely affect our growth and profitability. Additionally, changes in the mix of products sold to a mix with a lower overall gross margin or other increased cost of sales, along with slower inventory turnover and greater markdowns on inventory, could adversely affect our operations and operating results.

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Purchase price volatility, including inflationary and deflationary pressures, may adversely affect our financial performance.

Although we cannot determine the full effect of inflation and deflation on our operations, we believe our sales and results of operations are affected by both. We are subject to market risk with respect to the pricing of certain products and services, which include, among other items, steel, grain, petroleum, corn, soybean and other commodities as well as transportation services. Therefore, we may experience both inflationary and deflationary pressure on product cost, which may impact consumer demand and, as a result, sales and gross margin. Our strategy is to reduce or mitigate the effects of purchase price volatility principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases, adjusting retail prices and selectively buying from the most competitive vendors without sacrificing quality. Due to the competitive environment, such conditions have and may continue to adversely impact our financial performance.

There is no assurance that we will be able to continue to increase sales at our existing stores.

We experience fluctuations in our same-store sales, which are defined as stores which have completed twelve months of sales. Our success depends, in part, upon our ability to improve sales at our existing stores. Various factors affect same-store sales, including the general retail sales environment, our ability to efficiently source and distribute products, changes in our merchandise mix, competition, current economic conditions, the timing of release of new merchandise and promotional events, the success of marketing programs and weather conditions. These factors may cause our same-store sales results to differ materially from prior periods and from expectations. Past same-store sales are not necessarily an indication of future results, and there can be no assurance that our same-store sales will not decrease in the future.

Even if we are able to implement, to a significant degree, our key business strategy of expanding our store base, we may experience managerial or operational problems, which may prevent any expected increase in profitability or negatively impact our cash flow. To manage our planned expansion, we must ensure the continuing adequacy of our existing systems, controls and procedures, including product distribution facilities, store management, financial controls and information systems. There can be no assurance that we will be able to achieve our planned expansion, that the new stores will be effectively integrated into our existing operations or that such stores will be profitable.

Capital requirements for growth may not be available.

The construction and opening or acquisition of new stores and the development of new production and distribution facilities, along with the remodeling and renovation of existing stores, require significant amounts of capital. In the past, our growth has been funded primarily through bank borrowings and internally generated cash flow.

Disruptions in the capital and credit markets could adversely affect the ability of the banks to meet their commitments. Our access to funds under the credit facility is dependent on the ability of the banks that are parties to the facility to meet their funding commitments. Those banks may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time. In addition, tighter lending practices have made it more challenging for our real estate developers to obtain financing under reasonable loan terms and conditions. Unfavorable lending trends could impact the timing of our store openings and materially adversely affect our ability to open new purpose-built stores in desirable locations.

Longer term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives, or failures of significant financial institutions could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures could include deferring capital expenditures, and reducing or eliminating future share repurchases or other discretionary uses of cash.

Failure to open new stores in the manner currently contemplated could adversely affect our financial performance. An integral part of our business strategy includes the expansion of our base of stores by opening new stores. This expansion strategy is dependent on our ability to find suitable locations, and we face competition from many retailers for such sites. If we are unable to implement this strategy, our ability to increase our sales, profitability, and cash flow could be impaired significantly. To the extent that we are unable to open new stores in the manner we anticipate (due to, among other reasons, site approval or unforeseen delays in construction), our sales growth may be impeded.

New stores may negatively impact our results.

There can be no assurance that our new store openings will be successful or result in greater sales and profitability for the Company. New stores build their sales volumes and refine their merchandise selection over time and, as a result, generally have lower gross margins and higher operating expenses as a percentage of sales than our more mature stores. As we continue to open new stores, there may be a negative impact on our results from a lower contribution margin of these new stores until their sales levels ramp to chain average, if at all, as well as from the impact of related pre-opening costs.

Competition in our industry may hinder our ability to execute our business strategy and adversely affect our operations.

We operate in a very competitive market. The principal competitive factors include location of stores, price and quality of merchandise, in-stock consistency, merchandise assortment and presentation, and customer service. We believe we have successfully differentiated ourselves from general merchandise retailers, home center retailers and other specialty and discount retailers by focusing on our specialized market niche. However, we do face competition from these entities, as well as competition from independently-owned retail farm and ranch stores, privately-held regional farm store chains and farm cooperatives. Some of our competitors are units of national or regional chains that have substantially greater financial and other resources.

Weather conditions may have a significant impact on our financial results.

Historically, weather conditions have had a significant impact on our operating results. Weather conditions affect the demand for, and in some cases the supply of, products, which in turn has an impact on prices. In past years, we have experienced extreme weather conditions, including snow and ice storms, flood and wind damage, hurricanes, tornadoes and droughts in some states. Weather conditions also directly affect the demand for seasonal products, particularly during the winter heating season. Accordingly, the weather can have a material effect on our financial condition and results of operations.

There are certain risks associated with the seasonal nature of our business.

Our working capital needs and borrowings (if necessary) generally peak in our first and third fiscal quarters because lower sales are generated while expenses are incurred and inventory is increased in preparation for the spring and winter selling seasons. If cash on hand and borrowings under existing credit facilities are insufficient to meet the seasonal needs or if cash flow generated during the spring and winter is insufficient to repay associated borrowings on a timely basis, this seasonality could have a material adverse effect on our business.

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There is no assurance that our merchandising initiatives and marketing emphasis will provide expected results. We believe our past performance has been based on, and future success will depend upon, in part, the ability to develop and execute merchandising initiatives with effective marketing. There is no assurance that we will be successful, or that new initiatives will be executed in a timely manner to satisfy our customers' needs or expectations. Failure to execute and promote such initiatives in a timely manner could harm our ability to grow the business and could have a material adverse effect on our results of operations and financial condition. Additionally, our success depends on our ability to anticipate and respond in a timely manner to changing customer demand and preferences for merchandise. If we misjudge the market, we may significantly overstock unpopular products and be forced to take significant inventory markdowns. Shortages of key items could also have a materially adverse impact on operating results.

We face risks associated with vendors from whom our products are sourced.

The products we sell are sourced from a variety of domestic and international vendors. As a general rule, we have agreements with our vendors in which the vendors agree to comply with applicable laws, including labor and environmental laws, and to indemnify us against certain liabilities and costs. Our ability to recover liabilities and costs under these vendor agreements is dependent upon the financial condition and integrity of the vendors.

We rely on foreign manufacturers for various products that we sell. In addition, many of our domestic suppliers purchase a portion of their products from foreign sources. We rely on long-term relationships with our suppliers but have no long-term contracts with such suppliers. Our future success will depend in large measure upon our ability to maintain our existing supplier relationships or to develop new ones. This reliance increases the risk of inadequate and untimely supplies of various products due to local political, economic, social, or environmental conditions, transportation delays, restrictive actions by foreign governments, or changes in United States laws and regulations affecting imports or domestic distribution. Our vendors may be forced to reduce their production, shut down their operations or file for bankruptcy protection, which in some cases would make it difficult for us to serve the market's needs and could have a material adverse effect on our business.

As an importer, our business is subject to the risks generally associated with doing business abroad, such as foreign governmental regulations, economic disruptions, delays in shipments, transportation capacity and costs, currency exchange rates and changes in political or economic conditions in countries from which we purchase products. If any such factors were to render the conduct of business in particular countries undesirable or impractical or if additional United States quotas, duties, taxes or other charges or restrictions were imposed upon the importation of our products in the future, our financial condition and results of operations could be materially adversely affected.

Our failure to attract and retain qualified team members could adversely affect our financial performance.

Our ability to continue expanding operations depends on our ability to attract and retain a large and growing number of qualified team members. Our ability to meet labor needs while controlling wage and related labor costs is subject to numerous external factors, including the availability of a sufficient number of qualified persons in the work force, unemployment levels, prevailing wage rates, changing demographics, health and other insurance costs and changes in employment legislation. If we are unable to locate, attract or retain qualified personnel, or if costs of labor or related costs increase significantly, our financial performance could be adversely affected.

We may be subject to product liability and other claims in the ordinary course of business.

Our business involves a risk of product liability and other claims in the ordinary course of business. We maintain general liability insurance with a deductible for each occurrence and a \$36,000,000 aggregate retention applicable to all general liability and workers compensation claims. We also maintain umbrella limits above the primary general liability and product liability cover. In many cases, we have indemnification rights against the manufacturers of the products and their products liability insurance. Our ability to recover under such insurance or indemnification arrangements is subject to the financial viability of the insurers and manufacturers and the specific allegations of a

claim. No assurance can be given that our insurance coverage or the manufacturers' indemnity will be available or sufficient in any claims brought against us.

Our costs of doing business could increase as a result of changes in federal, state or local regulations. Changes in the federal, state or local minimum wage or living wage requirements or changes in other wage or workplace regulations could increase our costs of doing business. In addition, changes in federal, state or local regulations governing the sale of some of our products or tax regulations could increase our costs of doing business.

Because we are subject to numerous laws and governmental regulations, we could incur substantial judgments, fines, legal fees and other costs.

We are subject to numerous federal, state and local laws and governmental regulations relating to environmental protection, consumer product safety, building, land use and zoning requirements, workplace regulations, wage and hour, privacy and information security and employment law matters. If we fail to comply with existing or future laws or regulations, or if these laws or regulations are violated by importers, manufacturers or distributors, we may be subject to governmental or judicial fines or sanctions, while incurring substantial legal fees and costs. In addition, our capital expenditures could increase due to remediation measures that may be required if we are found to be noncompliant with any existing or future laws or regulations.

A privacy breach could result in negative publicity and adversely affect the Company's business.

The protection of customer, employee and company data is critical to the Company. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements. In connection with credit card sales, we transmit confidential credit card information. Third parties may have the technology or know-how to breach the security of this customer information, and our security measures and those of our technology vendors may not effectively preclude others from obtaining improper access to this information. Any security breach could expose us to risks of data loss, litigation and liability and could seriously disrupt our operations and any resulting negative publicity could significantly harm our reputation.

In addition, states and the federal government are increasingly enacting laws and regulations to protect consumers against identity theft. We collect personal information from consumers in the course of doing business. These laws will likely increase the costs of doing business and, if we fail to comply with these laws and regulations or to implement appropriate safeguards or to detect and provide prompt notice of unauthorized access as required by some of these new laws, we could be subject to potential claims for damages and other remedies, which could harm our business.

Legal proceedings could materially impact our results.

From time to time, we are party to legal proceedings including matters involving personnel and employment issues, personal injury, intellectual property, and other proceedings arising in the ordinary course of business. Our results could be materially impacted by the decisions and expenses related to pending or future proceedings.

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If we experience difficulties with our management information systems, our financial performance may be adversely affected.

We depend on management information systems for many aspects of our business. We could be materially adversely affected if our management information systems are disrupted or if we are unable to improve, upgrade, maintain and expand systems, particularly in light of the contemplated continued store growth. Many of our information systems contain confidential customer, Company or employee data. If we fail to adequately restrict access to this information, our results of operations could be adversely affected.

Effective tax rate changes and results of examinations by taxing authorities could materially impact our results. Our future effective tax rates could be adversely affected by the earnings mix being lower than historical results in states where we have lower statutory rates and higher than historical results in states where we have higher statutory rates, by changes in the measurement of our deferred tax assets and liabilities, or by changes in tax laws or interpretations thereof. In addition, we are subject to periodic audits and examinations by the Internal Revenue Service ("IRS") and other state and local taxing authorities. A portion of our sales are to tax-exempt customers. The business activities of our customers and the intended use of the unique products sold by us create a challenging and complex compliance environment. These circumstances create risk that we could be challenged as to the propriety of our sales tax compliance. Our results could be materially impacted by the determinations and expenses related to these and other proceedings by the IRS and other state and local taxing authorities.

Failure to maintain an effective system of internal control over financial reporting could materially impact our business and results.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. An internal control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal control systems, internal control over financial reporting may not prevent or detect misstatements. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud, and could expose us to litigation or adversely affect the market price of our common stock.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results or financial condition.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as revenue recognition, asset impairment, inventories, lease obligations, self-insurance, tax matters and litigation, are highly complex and involve many subjective assumptions, estimates or judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 25, 2010, we operated 1,001 stores in 44 states. We lease more than 94% of our stores, two of our six distribution centers and our management headquarters. Store leases typically have initial terms of between 10 and 15 years, with two to four renewal periods of five years each, exercisable at our option. No single lease is material to our operations.

Following is a count of our store locations by state:

State	Number of Stores	State	Number of Stores
Texas	121	Wisconsin	15
Ohio	69	Kansas	12
Michigan	63	Nebraska	12
Pennsylvania	60	Maine	10
New York	58	Mississippi	10
Tennessee	57	New Hampshire	10
North Carolina	43	New Jersey	10
Georgia	40	Maryland	9
Indiana	38	Iowa	8
Kentucky	38	Minnesota	8
Florida	37	Connecticut	7
Virginia	33	North Dakota	7
Alabama	25	Massachusetts	6
Oklahoma	23	South Dakota	6
South Carolina	22	Vermont	5
Louisiana	21	Delaware	3
California	20	Hawaii	3
Washington	19	Oregon	3
West Virginia	18	Montana	2
Illinois	16	New Mexico	2
Arkansas	15	Idaho	1
Missouri	15	Rhode Island	1
			1,001

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Item 3. Legal Proceedings

The Company received and responded to a Request for Information from the United States Environmental Protection Agency (“EPA”) relating to certain recreational vehicles and non-road spark ignition engines sold by the Company. In the first quarter of fiscal 2011, the Environmental Enforcement Section of the Department of Justice (“DOJ”), on behalf of the EPA, informed the Company that it believed the Company had violated the Clean Air Act by importing or causing the importation of certain engines not covered by certificates of conformity issued by the EPA, and that unless the DOJ and the Company were able to reach a settlement, the DOJ was prepared to commence a civil action. The Company is currently engaged in settlement discussions with the DOJ that would call for the payment of a civil penalty and certain injunctive relief. The engines were purchased by the Company pursuant to agreements with vendors under which the vendors represented that their products complied with all applicable laws and regulations and under which the vendors agreed to indemnify the Company for any liabilities or costs relating to, among other matters, the noncompliance or alleged noncompliance of their products. The Company has notified these vendors of the EPA’s position and expects to be reimbursed for any liabilities or costs relating to this matter. The Company does not expect the resolution of this matter to have a material adverse effect on its financial condition or results of operations.

We are also involved in various litigation matters arising in the ordinary course of business. We expect these matters will be resolved without material adverse effect on our consolidated financial position or results of operations. We believe that any estimated loss related to such matters has been adequately provided in accrued liabilities to the extent probable and reasonably estimable. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

Item 4. [Removed and Reserved]

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PART II

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

Tractor Supply Company's common stock trades on The Nasdaq Global Select Market under the symbol "TSCO".

The table below sets forth the high and low sales prices of our common stock as reported by The Nasdaq Global Select market for each fiscal quarter of the periods indicated:

	Price Range (split adjusted)			
	2010		2009	
	High	Low	High	Low
First Quarter	\$ 30.29	\$ 24.56	\$ 18.99	\$ 14.34
Second Quarter	\$ 35.93	\$ 28.91	\$ 21.86	\$ 17.09
Third Quarter	\$ 39.14	\$ 29.55	\$ 24.50	\$ 19.84
Fourth Quarter	\$ 48.79	\$ 38.35	\$ 27.25	\$ 22.17

As of January 31, 2011, the approximate number of record holders of our common stock was 120 (excluding individual participants in nominee security position listings), and the estimated number of beneficial holders of our common stock was 37,000.

Issuer Purchases of Equity Securities

We have a Board-approved share repurchase program which provides for the repurchase of up to \$400 million of common stock, exclusive of any fees, commissions, or other expenses related to such repurchases, through December 2011. Stock repurchase activity during fiscal 2010 is set forth in the table below:

Period	Total Number of Shares Purchased(a)	Average Price Paid Per Share(a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
First Quarter (b)	172,182	\$ 25.90	146,200	\$ 177,152,538
Second Quarter	298,622	33.13	298,622	167,264,053
Third Quarter	273,400	33.64	273,400	158,071,329
Fourth Quarter:				
9/26/10 – 10/23/10	--	--	--	158,071,329
10/24/10 – 11/20/10 (b)	292,999	40.52	290,000	146,324,048
11/21/10 – 12/25/10	83,800	42.04	83,800	142,800,349
	376,799	40.89	373,800	142,800,349
As of December 25, 2010	1,121,003	\$ 34.75	1,092,022	\$ 142,800,349

(a) The number of shares purchased and the average price paid per share shown in the table above have been adjusted to reflect the effect of a two-for-one stock split for all shares purchased prior to the stock split record date. Actual shares of 73,100, 149,311, and 230,100 were added to treasury in the first, second and third quarters of fiscal 2010, respectively, as the number of shares held in treasury was not adjusted for the two-for-one stock split as stated in Note 1 – Significant Accounting Policies in Part II Item 8 of this Form 10-K.

(b) We withheld 25,982 (split adjusted) shares during the first quarter and 2,999 shares during the fourth quarter to satisfy employee tax obligations on the vesting of restricted stock units in the amounts of \$0.7 million in the first quarter and \$0.1 million in the fourth quarter at an average price of \$25.30 and \$42.00, respectively. For further discussion, see Note 2 – Share-Based Compensation in Part II, Item 8 of this Form 10-K.

We expect to implement the balance of the repurchase program through purchases made from time to time either in the open market or through private transactions, in accordance with regulations of the SEC. The timing and amount of any shares repurchased under the program will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability, and other market conditions.

Any additional share repurchase programs will be subject to the discretion of our Board of Directors and subject to our results of operations, financial condition, cash requirements and other factors deemed relevant by our Board of Directors. The program may be limited or terminated at any time without prior notice.

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Common Stock Dividends

During 2010, the Board of Directors declared the following dividends:

Date Declared	Dividend Amount Per Share (split adjusted)	Stockholders of Record Date	Date Paid
March 1, 2010	\$ 0.07	March 15, 2010	March 29, 2010
May 3, 2010	0.07	May 17, 2010	June 2, 2010
July 29, 2010	0.07	August 16, 2010	August 31, 2010
October 28, 2010	0.07	November 15, 2010	November 30, 2010

It is the present intention of the Board of Directors to continue to pay this quarterly cash dividend; however, the declaration and payment of future dividends will be determined by the Board of Directors in its sole discretion and will depend upon the earnings, financial condition, and capital needs of the Company and other factors which the Board of Directors deems relevant. There were no dividends declared during fiscal 2009.

On February 4, 2011, we announced that our Board of Directors declared a quarterly cash dividend of \$0.07 per share of the Company's common stock. The dividend will be paid on March 8, 2011 to stockholders of record as of the close of business on February 22, 2011.

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STOCK PERFORMANCE GRAPH

This performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of Tractor Supply Company under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph compares the cumulative total stockholder return on our Common Stock from December 31, 2005 to December 25, 2010 (the Company's fiscal year-end) with the cumulative total returns of the S&P 500 Index and the S&P Retail Index over the same period. The comparison assumes that \$100 was invested on December 31, 2005 in our Common Stock and in each of the foregoing indices. The historical stock price performance shown on this graph is not necessarily indicative of future performance.

	12/31/05	12/30/06	12/29/07	12/27/08	12/26/09	12/25/10
Tractor Supply Company	\$100.00	\$84.45	\$66.79	\$65.21	\$102.06	\$182.85
S&P 500	\$100.00	\$113.62	\$118.44	\$69.92	\$90.24	\$100.68
S&P Retail Index	\$100.00	\$109.36	\$89.85	\$59.45	\$91.47	\$112.13

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Item 6. Selected Financial Data

FIVE YEAR SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

The following selected financial data are derived from the consolidated financial statements of Tractor Supply Company. Our fiscal year includes 52 or 53 weeks and ends on the last Saturday of the calendar year. References to fiscal year mean the year in which that fiscal year ended. All fiscal years presented below consist of 52 weeks.

Effective December 25, 2010, the Company elected to change its method of accounting for inventories from the lower of cost, as determined by the last-in, first-out (“LIFO”) method, or market to the lower of cost, as determined by average cost method, or market. The following table provides summary historical financial information adjusted for the change in accounting for inventory for the periods ended and as of the dates indicated (in thousands, except per share amounts and selected operating data):

	2010	2009 (a)	2008 (a)	2007 (a)	2006 (a)					
Operating Results:										
Net sales	\$ 3,638,336	\$ 3,206,937	\$ 3,007,949	\$ 2,703,212	\$ 2,369,612					
Gross margin	1,203,665	1,041,889	955,055	857,940	752,237					
Selling, general and administrative expenses	867,644	784,066	715,961	641,603	555,834					
Depreciation and amortization	69,797	66,258	60,731	51,064	42,292					
Operating income	266,224	191,565	178,363	165,273	154,111					
Interest expense, net	1,284	1,644	2,133	5,037	2,688					
Income before income taxes	264,940	189,921	176,230	160,236	151,423					
Income tax provision	96,968	70,176	68,237	60,777	56,677					
Net income	\$ 167,972	\$ 119,745	\$ 107,993	\$ 99,459	\$ 94,746					
Net income per share – basic (b)										
(c)	\$ 2.31	\$ 1.66	\$ 1.47	\$ 1.27	\$ 1.18					
Net income per share – assuming dilution (b) (c)	\$ 2.25	\$ 1.63	\$ 1.44	\$ 1.24	\$ 1.15					
Adjusted weighted average shares for dilutive earnings per share (c)	74,686	73,297	74,927	80,200	82,119					
Operating Data (percent of net sales):										
Gross margin	33.1	%	32.5	%	31.8	%	31.7	%	31.7	%
Selling, general and administrative expenses	23.9	%	24.4	%	23.8	%	23.7	%	23.5	%
Operating income	7.3	%	6.0	%	5.9	%	6.1	%	6.5	%
Net income	4.6	%	3.7	%	3.6	%	3.7	%	4.0	%

Number of Stores:

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Beginning of year	930	855	764	676	595
New stores opened	74	76	91	89	82
Closed/sold stores	(3)	(1)	--	(1)	(1)
End of year	1,001	930	855	764	676
Number of stores relocated during year					
	--	2	1	12	15
Number of stores remodeled (d)					
	1	6	3	1	3
Capital expenditures (e)	\$ 96,511	\$ 73,974	\$ 91,759	\$ 83,986	\$ 90,565
Same-store sales increase (decrease) (f)					
	7.0 %	(1.1 %)	1.4 %	3.4 %	1.6 %
Average sales per store (000's) (g)					
	\$ 3,781	\$ 3,586	\$ 3,703	\$ 3,762	\$ 3,699
Average transaction value	\$ 42.07	\$ 42.06	\$ 44.55	\$ 43.60	\$ 43.12
Average number of daily transactions per store					
	249	236	230	239	238
Total team members	14,700	13,300	12,800	11,600	9,800
Balance Sheet Data (at end of period):					
Working capital	\$ 617,153	\$ 475,847	\$ 337,225	\$ 340,405	\$ 340,522
Total assets	1,463,474	1,276,580	1,143,301	1,083,185	1,010,639
Long-term debt, less current portion (h)					
	1,316	1,407	1,797	2,351	2,808
Stockholders' equity	933,242	779,151	651,799	580,943	611,292

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(a) As discussed in Note 1 – Significant Accounting Policies in Part II Item 8 of this Form 10-K regarding our change in accounting for inventories from last-in, first-out (LIFO) method to the average cost method, selected financial data has been retrospectively adjusted. Retrospective adjustments relating to fiscal 2009 and 2008 have been provided in Note 1 – Significant Accounting Policies in Part II Item 8 of this Form 10-K:

	2007		2006					
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted				
Operating Results:								
Net sales	\$ 2,703,212	\$ 2,703,212	\$ 2,369,612	\$ 2,369,612				
Gross margin	852,708	857,940	746,146	752,237				
Selling, general and administrative expenses	641,603	641,603	555,834	555,834				
Depreciation and amortization	51,064	51,064	42,292	42,292				
Operating income	160,041	165,273	148,020	154,111				
Interest expense, net	5,037	5,037	2,688	2,688				
Income before income taxes	155,004	160,236	145,332	151,423				
Income tax provision	58,763	60,777	54,324	56,677				
Net income	\$ 96,241	\$ 99,459	\$ 91,008	\$ 94,746				
Net income per share – basic (b) (c)	\$ 1.23	\$ 1.27	\$ 1.14	\$ 1.18				
Net income per share – assuming dilution (b) (c)	\$ 1.20	\$ 1.24	\$ 1.11	\$ 1.15				
Adjusted weighted average shares for dilutive earnings per share (c)	80,200	80,200	82,119	82,119				
Operating Data (percent of net sales):								
Gross margin	31.5	%	31.7	%	31.5	%	31.7	%
Selling, general and administrative expenses	23.7	%	23.7	%	23.5	%	23.5	%
Operating income	5.9	%	6.1	%	6.2	%	6.5	%
Net income	3.6	%	3.7	%	3.8	%	4.0	%

	2008		2007		2006	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
Balance Sheet Data (at end of period):						
Working capital	\$ 295,518	\$ 337,225	\$ 324,799	\$ 340,405	\$ 328,134	\$ 340,522
Total assets	1,075,997	1,143,301	1,057,971	1,083,185	998,258	1,010,639
Long-term debt, less current portion						
(h)	1,797	1,797	57,351	57,351	2,808	2,808
Stockholders' equity	610,130	651,799	565,337	580,943	598,904	611,292

- (b) Basic net income per share is calculated based on the weighted average number of common shares outstanding applied to net income. Diluted net income per share is calculated using the treasury stock method for stock options and restricted stock units.
- (c) Adjusted to reflect two-for-one stock split that was effective September 2, 2010.
- (d) Reflects remodelings costing more than \$150,000.
- (e) Includes assets acquired through capital leases.
- (f) Same-store sales increases (decreases) are calculated on an annual basis, including relocations in 2010, 2009 and 2008 and excluding relocations in 2007 and 2006, using all stores open at least one year.
- (g) Average sales per store is calculated based on total sales divided by the weighted average number of stores open in the year.
- (h) Long-term debt includes borrowings under the Company's revolving credit agreement and amounts outstanding under its capital lease obligations, excluding the current portion.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Tractor Supply Company is the largest operator of retail farm and ranch stores in the United States and is focused on supplying the lifestyle needs of recreational farmers and ranchers and of those who enjoy the rural lifestyle, as well as tradesmen and small businesses. We operate retail stores under the names Tractor Supply Company and Del's Farm Supply and operate a website under the name TractorSupply.com. Our stores are located in towns outlying major metropolitan markets and in rural communities, and they offer the following comprehensive selection of merchandise:

- Equine, pet and small animal products, including items necessary for their health, care, growth and containment;
 - Hardware, truck, towing and tool products;
- Seasonal products, including lawn and garden items, power equipment, gifts and toys;
 - Maintenance products for agricultural and rural use; and
 - Work/recreational clothing and footwear.

Our Tractor Supply stores typically range in size from 15,500 to 18,500 square feet of inside selling space and additional outside selling space. We use a standard 15,500 square foot prototype for new purpose-built locations. For new stores located in existing buildings, one of several layout formats is utilized.

Our wholly-owned subsidiary, Del's, operated 26 stores as of December 25, 2010 in Washington, Oregon, Idaho and Hawaii. Del's stores currently range in size from approximately 2,000 to 6,000 square feet of inside selling space plus additional outside and covered/sheltered selling space.

Our current and long-term growth strategy is to: (1) expand geographic market presence through opening new retail stores, (2) enhance financial performance through same-store sales increases, achieved through targeted merchandising programs with an "everyday value prices" philosophy and supported by strong customer service, (3) enhance product margin through assortment management, vendor management, sourcing and optimization of transportation and distribution costs, (4) leverage operating costs, especially advertising, distribution and corporate overhead, (5) expand market opportunities via internet sales, and (6) expand through selective acquisition, as such opportunities arise, to enhance penetration into new and existing markets as a complimentary strategy to organic growth.

We have experienced considerable sales growth over the past five years, with a compounded annual growth rate of approximately 12.0%. We project an increase of 80 to 85 new stores in 2011, an increase of approximately 8%. We opened 74 new stores in 2010 and 76 new stores in 2009, an increase of approximately 8% and 9%, respectively.

We operated 1,001 retail farm and ranch stores in 44 states as of December 25, 2010. We have developed a proven method for selecting store sites and have identified over 800 potential additional markets for new Tractor Supply stores in the United States.

The average cash investment for new leased stores opened in 2010 was \$1.2 million for retrofit stores and \$0.9 million for prototype stores. A majority of the cash outlay was for initial acquisition of inventory and capital expenditures (principally leasehold improvements, fixtures and equipment), and approximately \$92,000 for pre-opening costs.

We have placed significant emphasis on our merchandising programs, evaluating the sales and profitability of our products through detailed line reviews, review of vendor performance measures and modification of the overall product offerings. We believe these efforts, coupled with a strong marketing program and in-depth product knowledge

training of our store team members, have enhanced our sales and financial performance.

Change in Accounting Method

Effective December 25, 2010, the Company elected to change its method of accounting for inventories from the lower of cost, as determined by the last-in, first-out (“LIFO”) method, or market to the lower of cost, as determined by the average cost method, or market. The Company believes the change is preferable as the average cost method better reflects the current value of inventory on the consolidated balance sheets, provides a better reflection of periodic income and improves comparability with our peers.

The Company has applied this change in method of inventory costing retrospectively to all prior periods presented herein in accordance with accounting principles relating to accounting changes. All financial information in Item 8 of this 10-K has been retrospectively adjusted. See Note 1, Significant Accounting Policies, to the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, for a complete discussion of our change in accounting method.

Stock Split

On July 29, 2010, our Board of Directors announced a two-for-one split of our outstanding shares of common stock to be effected in the form of a stock dividend. On September 2, 2010, stockholders of record at the close of business on August 19, 2010, were issued one additional share of common stock for each share owned by such stockholder. The stock split increased the number of shares of common stock outstanding from approximately 36.3 million to approximately 72.7 million. Share and per-share amounts (including stock options and restricted stock units) shown in this Form 10-K reflect the split. The total number of authorized common shares and the par value thereof was not changed by the split. The number of shares held in treasury was not adjusted for the split.

Seasonality and Weather

Our business is highly seasonal. Historically, our sales and profits have been the highest in the second and fourth fiscal quarters due to the sale of seasonal products. Unseasonable weather, excessive precipitation, drought, and early or late frosts may also affect our sales. We believe, however, that the impact of extreme weather conditions is somewhat mitigated by the geographic dispersion of our stores.

We experience our highest inventory and accounts payable levels during our first fiscal quarter for purchases of seasonal product in anticipation of the spring selling season and again during our third fiscal quarter in anticipation of the winter selling season.

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Purchase Price Volatility

Although we cannot determine the full effect of inflation and deflation on our operations, we believe our sales and results of operations are affected by both. We are subject to market risk with respect to the pricing of certain products and services, which include, among other items, steel, grain, petroleum, corn, soybean and other commodities as well as transportation services. Therefore, we may experience both inflationary and deflationary pressure on product cost, which may impact consumer demand and, as a result, sales and gross margin. Our strategy is to reduce or mitigate the effects of purchase price volatility principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases, adjusting retail prices and selectively buying from the most competitive vendors without sacrificing quality. Due to the competitive environment, such conditions have and may continue to adversely impact our financial performance.

Significant Accounting Policies and Estimates

Management’s discussion and analysis of our financial position and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of these financial statements requires management to make informed estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Our financial position and/or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. Our significant accounting policies are disclosed in Note 1 to our Consolidated Financial Statements. The following discussion addresses our most critical accounting policies, which are those that are both important to the portrayal of our financial condition and results of operations and that require significant judgment or use of complex estimates.

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<p>Revenue Recognition and Sales Returns: We recognize revenue at the time the customer takes possession of merchandise or receives services. If we receive payment before the customer has taken possession of the merchandise (as per our special order layaway programs), the revenue is deferred until the sale is complete. Revenues from the sale of gift cards are deferred and recognized when the gift card or merchandise return card is redeemed by the customer. Income is recognized when the likelihood of the gift card or merchandise return card being redeemed by the customer is remote (referred to as “breakage”).</p>	<p>We estimate a liability for sales returns based on a rolling average of historical returns trends, and we believe that our estimate for sales returns is an accurate reflection of future returns associated with past sales. Our estimation methodologies have been consistently applied from year to year; however, as with any estimate, refund activity may vary from estimated amounts.</p>	<p>We have not made any material changes in the accounting methodology used to recognize sales returns or breakage in the financial periods presented. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate sales returns or gift card and merchandise return card breakage. However, if actual consumer return or gift card and merchandise return card redemption patterns are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.</p>

estimated unredeemed gift cards and merchandise return rate at December 25, 2010, would have affected net income by approximately \$170,000 in fiscal 2010.

A 50 basis point change in our gift card and merchandise return card breakage rate would have affected net income by approximately \$340,000 in fiscal 2010.

Inventory Valuation:

Inventory Impairment Risk

We identify potentially excess and slow-moving inventory by evaluating turnover rates, historical and expected future sales trends, age of merchandise, overall inventory levels, current cost of inventory and other benchmarks. The estimated inventory valuation reserve to recognize any impairment in value (i.e., an inability to realize the full carrying value) is based on our aggregate assessment of these valuation indicators under prevailing market conditions and current merchandising strategies.

We do not believe ourWe have not made any material changes in the accounting methodology used to recognize inventory impairment reserves in the financial periods presented. However, changes in market conditions or consumer purchasing patterns could result in a material change in the future estimates or assumptions we use to calculate impairment. However, if assumptions regarding consumer demand or clearance potential for certain products are inaccurate, we may be exposed to losses or gains that could be material.

We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate impairment. However, if assumptions regarding consumer demand or clearance potential for certain products are inaccurate, we may be exposed to losses or gains that could be material.

Our impairment reserve regarding consumer demand or clearance potential for certain products is based on assumptions and to apply judgment regarding forecasted customer demand, and there reserve at December 25, 2010, would have affected net income by approximately \$490,000 in fiscal 2010.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<p>Shrinkage</p> <p>We perform physical inventories at each store at least once a year, and we have established reserves for estimating inventory shrinkage between physical inventory counts. The reserve is established by assessing the chain-wide average shrinkage experience rate, applied to the related periods' sales volumes. Such assessments are updated on a regular basis for the most recent individual store experiences.</p>	<p>The estimated store inventory shrinkage rate is based on historical changes in the methodology used to recognize shrinkage in the financial periods presented. We believe historical rates are a reasonably accurate reflection of future trends. Our shrinkage reserve contains reasonable uncertainties because the calculation requires management to make estimates or assumptions we use to calculate our shrinkage reserve. However, if our estimates and the effect of loss prevention measures and new merchandising strategies.</p>	<p>We have not made any material changes in the methodology used to recognize shrinkage in the financial periods presented. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our shrinkage reserve. However, if our estimates regarding inventory losses are inaccurate, we may be exposed to losses or gains that could be material. A 10% change in our shrinkage reserve at December 25, 2010, would have affected net income by approximately \$815,000 in fiscal 2010.</p>
<p>Vendor Support</p> <p>We receive funding from substantially all of our significant merchandise vendors for the promotion of our brand as well as the sale of their products through a variety of programs and arrangements, including guaranteed funding and volume rebates programs. The amounts received are subject to terms of vendor agreements, which have varying expiration dates ranging in duration from several months to a few years. Many agreements are negotiated annually and are based on expected annual purchases of the vendor's product. Vendor funding is initially deferred as a reduction of the purchase price of inventory and then recognized as a reduction of cost of merchandise as related inventory is sold. During interim periods, the amount of expected funding is estimated based upon initial guaranteed commitments, as well as anticipated purchase levels with applicable vendors.</p>	<p>The estimated purchase volume and related vendor purchase activity is known. Thus, we do not believe there is a reasonable likelihood that there will be a material change in the amounts recorded as vendor support.</p> <p>We do not believe there is a significant collectibility risk related to vendor support amounts due us at the end of fiscal 2010.</p> <p>Our allocation methodology against our outstanding vendor support due as of December 25, 2010, requires management to make assumptions and to apply judgment regarding customer demand, purchasing activity, target thresholds, vendor attrition and collectibility.</p>	<p>At the end of each fiscal year, a significant portion of the actual purchase activity is known. Thus, we do not believe there is a reasonable likelihood that there will be a material change in the amounts recorded as vendor support.</p> <p>If a 10% reserve had been applied against our outstanding vendor support due as of December 25, 2010, net income would have been affected by approximately \$1.6 million.</p> <p>Although it is unlikely that there will be any significant reduction in historical levels of vendor support, if such a reduction were to occur in future periods, the Company could experience a higher inventory balance</p>

and higher cost of sales.

Freight

We incur various types of transportationWe allocate freight as a componentIf a 10% increase or decrease had been and delivery costs in connection withof total cost of sales without regardapplied against our current inventory i n v e n t o r y p u r c h a s e s a n d t o i n v e n t o r y m i x o r u n i q u e f r e i g h t c a p i t a l i z e d f r e i g h t b a l a n c e , n e t i n c o m e distribution. Such costs are included as a burden of certain categories. Thiswould have been affected by component of the overall cost ofassumption has been consistentlyapproximately \$3.4 million. inventories (on an aggregate basis) andapplied for all years presented. recognized as a component of cost of merchandise sold as the related inventory is sold.

Share-Based Compensation:

We have share-based compensation plans,Option-pricing models and generallyWhile we update our assumptions which include incentive and non-qualifiedaccepted valuation techniquesannually, we do not believe there is a stock options, restricted stock units, andrequire management to makereasonable likelihood that there will be an employee stock purchase plan. Seesubjective assumptions and to applya material change in the future Note 1, Significant Accounting Policies,judgment to determine the fair valueestimates or assumptions we use to and Note 2, Share-Based Compensation,of our awards. These assumptionsdetermine share-based compensation to the Notes to Consolidated Financialand judgments include estimatingexpense. However, if actual results are Statements, included in Item 8, Financialthe future volatility of our stocknot consistent with our estimates or Statements and Supplementary Data, ofprice, expected dividend yield,assumptions, we may be exposed to this Annual Report on Form 10-K, for afuture employee turnover rates andchanges in share-based compensation complete discussion of our share-basedfuture employee stock optionexpense that could be material. The compensation programs. exercise behaviors. In addition toreported share-based compensation We estimate the fair value of our stockthe key assumptions used toexpense may not be representative of option awards at the date of grant utilizingestimate the fair value, the estimatedthe actual economic cost of the a Black-Scholes option pricingforfeiture rate of the awardedshare-based compensation. model. We estimate the fair value of ouroptions is a critical assumption, as itA 10% change in our share-based market-based restricted stock units at thereduces expense ratably over thecompensation expense for the year date of grant utilizing average marketvesting period. Changes in theseended December 25, 2010, would price of our stock on the date of the relatedassumptions can materially affecthave affected net income by award. the fair value estimate and theapproximately \$750,000. amount of share-based compensation recognized.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<p>Self-Insurance Reserves:</p> <p>We self-insure a significant portion of our employee medical insurance, workers' compensation and general liability insurance plans. We have stop-loss insurance policies to protect from individual losses over specified dollar values.</p> <p>When estimating our self-insured liabilities, we consider a number of factors, including historical claims experience, demographic factors and severity factors.</p>		
	<p>The full extent of certain claims, especially workers' compensation and general liability claims, may not become fully determined for several years.</p> <p>Our self-insured liabilities contain uncertainties because management is required to make calculations and to apply judgment to estimate the ultimate cost to settle reported claims and associated with these claims, we may be exposed to losses that could be material as of the balance sheet date.</p>	<p>We have not made any material changes in the accounting methodology used to establish our self-insurance reserves in the financial periods presented.</p> <p>We do not believe there is a reasonable likelihood that there will be a material change in the assumptions we use to calculate insurance reserves. However, if we experience a significant increase in the number of claims or the cost of claims incurred but not reported, we may be exposed to losses that could be material.</p> <p>A 10% change in our self-insurance reserves at December 25, 2010, would have affected net income by approximately \$1.8 million in fiscal 2010.</p>
<p>Sales Tax Audit Reserve:</p> <p>A portion of our sales are to tax-exempt customers. We obtain exemption information as a necessary part of each tax-exempt transaction. Many of the states in which we conduct business will perform audits to verify our compliance with applicable sales tax laws. The business activities of our customers and the use of the unique products sold by us create a challenging and complex compliance environment. These circumstances also create some risk that we could be challenged as to the propriety of our sales tax compliance.</p> <p>While we believe we reasonably enforce sales tax compliance with our customers and endeavor to fully comply with all applicable sales tax regulations, there can be no assurance that we, upon completion of such audits, would not have a significant liability for disallowed exemptions.</p>		
	<p>We review our past audit experience and assessments with applicable states to determine if we have potential exposure for non-compliance. Any estimated liability is based on an initial assessment of compliance risk and our to-date experience with each customer audit. As each audit progresses, we quantify the exposure based on preliminary assessments made by the state auditors, adjusted for tax liability are inaccuracy, we may be provided to reduce the assessment.</p> <p>Our sales tax audit reserve contains uncertainties because management is required to make assumptions and apply judgment regarding the regulatory support for the complexity of agricultural-based exemptions, the ambiguity in state tax regulations, the number of ongoing audits, and the length of time required to settle with the state</p>	<p>We have not made any material changes in the methodology used to establish the sales tax audit reserve in the financial periods presented.</p> <p>We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate the sales tax liability reserve for current audits. However, if our estimates regarding the ultimate sales tax liability are inaccurate, we may be exposed to losses or gains that could be material.</p> <p>A 10% change in our sales tax liability reserve at December 25, 2010, would have affected net income by approximately \$470,000 in fiscal 2010.</p>

taxing authorities.

Tax Contingencies:

Our income tax returns are periodically audited by U.S. federal and state tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any time, multiple tax years are subject to audit by the various tax authorities. In evaluating the exposures associated with our various tax filing positions, we record reserves for probable exposures. A number of years may elapse before a particular matter, for which we have established a reserve, is fully resolved or clarified. We adjust our tax contingencies reserve and income tax provision in the period in which actual results of a settlement with tax authorities differs from our established reserve, the statute of limitations expires for the relevant tax authority to examine the tax position or when more information becomes available.

Our tax contingencies reserve contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with our various filing positions and whether or not the minimum requirements for recognition of tax benefits have been met. Although management believes that the judgments and estimates discussed herein are reasonable, actual results could differ, and we may be exposed to losses or gains that could be material.

Our effective income tax rate is also affected by changes in tax law, the tax jurisdiction of new stores or business ventures, the level of earnings and the results of tax audits. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would require use of our cash and would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction in our effective income tax rate in the period of resolution.

Our effective income tax rate is also may be exposed to losses or gains that could be material. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would require use of our cash and would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction in our effective income tax rate in the period of resolution.

Our effective income tax rate is also may be exposed to losses or gains that could be material. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would require use of our cash and would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction in our effective income tax rate in the period of resolution.

We recognize a liability for certain tax benefits that do not meet the minimum requirements for recognition in the financial statements.

A 10% change in our unrecognized tax benefit reserve at December 25, 2010 would have affected net income by approximately \$370,000 in fiscal 2010.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
<p>Goodwill:</p>	<p>Goodwill and intangible assets with indefinite lives are not amortized. We evaluate goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of the goodwill may not be recoverable. We complete our impairment evaluation by performing internal valuation analyses, considering other publicly available market information using an independent valuation firm, as appropriate.</p> <p>At December 26, 2009 all goodwill associated with the Del's business and purposes of the fiscal 2009 impairment testing, Del's was considered the reporting unit. In October 2010, we reevaluated Del's reporting unit and concluded that since Del's has become closely aligned terms of management, infrastructure, philosophy and performance, we now have only one reporting unit for goodwill impairment evaluation. All goodwill at December 25, 2010 is associated with the Company as a whole.</p> <p>In the fourth quarter of fiscal 2010, we completed our annual impairment testing of goodwill, and determined there was no impairment. We determined that the fair value of the reporting unit (including goodwill) was in excess of the carrying value of the reporting unit. In reaching this conclusion, the fair value of the reporting unit was determined based on a market approach. Under the market approach, the fair value is based on observed market prices.</p>	<p>We determine fair value using widely accepted valuation techniques, including discounted cash flow and market multiples analyses. These types of analyses contain uncertainties because they require management to make assumptions upon which the estimates are based may differ in some respects from actual results. Should a significant or prolonged deterioration in economic conditions persist, then key judgments and assumptions may be impacted. At December 25, 2010, the fair value of the reporting unit exceeded the carrying value of its net assets by a significant amount. However, if actual results are not consistent with our current estimates or assumptions, we may be exposed to an impairment charge that could be material.</p>
<p>Long-Lived Assets:</p>	<p>Long-lived assets other than goodwill and indefinite-lived intangible assets, which are separately tested for impairment, are evaluated for impairment whenever events or changes in circumstances</p>	<p>Our impairment loss calculationsWe have not made any material changes in our impairment loss assessment methodology in the financial periods presented. We require management to make assumptions and to apply judgment to estimate future cash flows and</p>

indicate that the carrying value may not be recoverable. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to calculate long-lived asset impairment losses. None of these estimates and assumptions are significantly sensitive, and a 10% change in any of these estimates would not have a material impact on our analysis. However, if actual results are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to losses that could be material.

When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The significant assumptions used to determine estimated undiscounted cash flows include cash inflows and outflows directly resulting from the use of those assets in operations, including margin on net sales, payroll and related items, occupancy costs, insurance allocations and other costs to operate a store.

If the estimated future cash flows are less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based on an estimated future cash flow model. We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.

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Quarterly Financial Data

Our unaudited quarterly operating results for each fiscal quarter of 2010 and 2009 are shown below (in thousands, except per share amounts):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter(2)	
	As		As		As		As	
	Previously Reported	As Adjusted	Previously Reported	As Adjusted	Previously Reported	As Adjusted	Previously Reported	As Adjusted
2010 (1)								
Net sales	\$710,917	\$710,917	\$1,065,656	\$1,065,656	\$829,114	\$829,114		\$1,032,649
Gross margin	228,884	230,931	358,803	360,129	279,139	275,688		336,917
Operating income	14,420	16,467	122,322	123,648	50,858	47,407		78,702
Net income	9,308	10,582	76,487	77,318	32,017	29,863		50,209
Net income per share:(3)								
Basic	\$0.13	\$0.15	\$1.05	\$1.06	\$0.44	\$0.41		\$0.69
Diluted	\$0.13	\$0.14	\$1.02	\$1.04	\$0.43	\$0.40		\$0.67
Same-store sales increase	2.8	% 2.8	% 6.1	% 6.1	% 5.0	% 5.0		13.1
								%
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	As		As		As		As	
	Previously Reported	As Adjusted	Previously Reported	As Adjusted	Previously Reported	As Adjusted	Previously Reported	As Adjusted
2009 (1)								
Net sales	\$650,171	\$650,171	\$946,504	\$946,504	\$747,730	\$747,730	\$862,532	\$862,532
Gross margin	201,036	203,870	302,198	305,901	246,038	247,934	285,685	284,184
Operating income	1,185	4,019	88,294	91,997	35,797	37,693	59,357	57,856
Net income	470	2,199	54,764	57,097	21,979	23,175	38,253	37,274
Net income per share:(3)								
Basic	\$0.01	\$0.03	\$0.76	\$0.80	\$0.30	\$0.32	\$0.53	\$0.52
Diluted	\$0.01	\$0.03	\$0.75	\$0.78	\$0.30	\$0.32	\$0.52	\$0.51
Same-store sales increase (decrease)	4.2	% 4.2	% (2.7)	% (2.7)	% (5.1)	% (5.1)	% 0.7	% 0.7
								%

(A) amounts have been adjusted for the change in inventory accounting method from LIFO to average cost.

(B) The fiscal fourth quarter does not require an adjustment for the change in inventory accounting method as this change occurred

(C) Due to the nature of interim earnings per share calculations, the sum of quarterly earnings per share amounts may not equal the

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Results of Operations

Our fiscal year includes 52 or 53 weeks and ends on the last Saturday of the calendar year. References to fiscal year mean the year in which that fiscal year ended. The fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008 contain 52 weeks. All amounts have been adjusted to reflect the Company's election to change its method of accounting for inventories from the last-in, first-out (LIFO) method to the average cost method.

The following table sets forth, for the periods indicated, certain items in our Consolidated Statements of Income expressed as a percentage of net sales.

	2010	2009	2008
Net sales	100.0 %	100.0 %	100.0 %
Cost of merchandise sold (a)	66.9	67.5	68.2
Gross margin (a)	33.1	32.5	31.8
Selling, general and administrative expenses(a)	23.9	24.4	23.8
Depreciation and amortization	1.9	2.1	2.0
Operating income	7.3	6.0	6.0
Interest expense, net	--	0.1	0.1
Income before income taxes	7.3	5.9	5.9
Income tax provision	2.7	2.2	2.3
Net income	4.6 %	3.7 %	3.6 %

(a)Our gross margin amounts may not be comparable to those of other retailers since some retailers include all of the costs related to their distribution network in cost of merchandise sold and others like us exclude a portion of these distribution network costs from gross margin and instead include them in selling, general and administrative ("SG&A") expenses; refer to Note 1 – Significant Accounting Policies, of the Notes to Consolidated Financial Statements, included in Item 8 Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Fiscal 2010 Compared to Fiscal 2009

Net sales increased 13.5% to \$3.64 billion in fiscal 2010 from \$3.21 billion in fiscal 2009. This increase resulted from the opening of new stores and a 7.0% increase in same-store sales. The same-store average daily transaction count increased 7.4%, while same-store transaction value decreased 0.3% for fiscal 2010.

Same-store sales increased 7.0% compared with a same-store sales decrease of 1.1% in the prior year. This same-store sales increase was broad-based and driven by strong results in core consumable categories, principally animal and pet-related products, as well as seasonal products, including heating, insulated outerwear and outdoor power equipment.

In fiscal 2010, we opened 74 new stores (compared to 76 new stores in fiscal 2009), relocated no stores (compared to two in fiscal 2009) and closed three stores (compared to one store in fiscal 2009).

Gross margin increased 15.5% to \$1.20 billion compared to \$1.04 billion in 2009. As a percent of sales, gross margin increased to 33.1% for fiscal 2010 compared to 32.5% for fiscal 2009. The improvement in gross margin is primarily

due to expanded direct product margin and a decrease in shrink, partially offset by increased transportation costs. The direct product margin improvement resulted from continued progress on margin driving initiatives which include strategic sourcing, inventory management, and more effective pricing.

As a percent of sales, SG&A expenses including depreciation and amortization improved 70 basis points to 25.8% in fiscal 2010 from 26.5% in fiscal 2009. The improvement as a percent to sales was primarily attributable to the leverage of strong same-store sales and expense management, partially offset by an increase in incentive compensation expense.

Net interest expense decreased 21.9% to \$1.3 million in fiscal 2010 from \$1.6 million in fiscal 2009. This decrease is directly related to lower average borrowings and a decline in interest charges associated with sales tax audits.

Our effective tax rate decreased to 36.6% for fiscal 2010 compared to 36.9% in fiscal 2009. This reduction in the tax resulted from a greater tax benefit received on the disqualified disposition of incentive stock options during fiscal 2010 compared to fiscal 2009.

As a result of the foregoing factors, net income for fiscal 2010 increased 40.3% to \$168.0 million, or \$2.25 per diluted share, as compared to net income of \$119.7 million, or \$1.63 per diluted share, in fiscal 2009.

During 2010, we repurchased approximately 0.8 million shares of stock for \$38.2 million as part of our previously announced \$400 million share repurchase program. In 2009, we repurchased approximately 0.4 million shares at a total cost of \$15.3 million. As mentioned in Note 1 – Significant Accounting Policies in Part II of this Form 10-K, the shares added to treasury were not adjusted for the stock split.

Fiscal 2009 Compared to Fiscal 2008

Net sales increased 6.6% to \$3.21 billion in fiscal 2009 from \$3.01 billion in fiscal 2008. This increase resulted from the opening of new stores partially offset by a 1.1% decrease in same-store sales. The same-store average daily transaction count increased 5.3%, while same-store transaction value decreased 6.0% for fiscal 2009.

Same-store sales decreased 1.1% compared with a same-store sales increase of 1.4% in the prior year. This same-store sales decline was primarily driven by softness in sales of seasonal big ticket (merchandise priced \$350 or greater) and discretionary merchandise, partially offset by continued strong results in core consumable categories, including animal and pet-related products.

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In fiscal 2009, we opened 76 new stores (compared to 91 new stores in fiscal 2008), relocated two stores (compared to one in fiscal 2008) and closed one store (compared to no stores in fiscal 2008).

Gross margin increased 9.1% to \$1,041.9 million compared to \$955.1 million in 2008. As a percent of sales, gross margin increased to 32.5% for fiscal 2009 compared to 31.8% for fiscal 2008. The increase in gross margin resulted primarily from lower transportation costs.

As a percent of sales, SG&A expenses increased 60 basis points to 24.4% in fiscal 2009 from 23.8% in fiscal 2008. This increase as a percent of sales was primarily attributable to the deleveraging related to the same-store sales decrease and higher incentive compensation and occupancy costs, partially offset by reduced marketing costs. Depreciation and amortization expense increased 10 basis points as a percent of sales in fiscal 2009 over fiscal 2008 due mainly to costs associated with new stores.

Net interest expense decreased 22.9% to \$1.6 million in fiscal 2009 from \$2.1 million in fiscal 2008; however, net interest expense remained consistent as a percent of sales. This decrease is directly related to lower average borrowings partially offset by higher interest charges associated with sales tax audits.

Our effective tax rate decreased to 36.9% for fiscal 2009 compared to 38.7% in fiscal 2008. This reduction in the tax resulted from the favorable impact of certain federal tax credits and a lower percentage of unfavorable permanent tax differences relative to income before taxes.

As a result of the foregoing factors, net income for fiscal 2009 increased 10.9% to \$119.7 million, or \$1.63 per diluted share, as compared to net income of \$108.0 million, or \$1.44 per diluted share, in fiscal 2008.

During 2009, we repurchased approximately 0.4 million shares of stock for \$15.3 million as part of our previously announced \$400 million share repurchase program. In 2008, we repurchased approximately 1.6 million shares at a total cost of \$53.9 million. As mentioned in Note 1 – Significant Accounting Policies in Part II of this Form 10-K, the shares added to treasury were not adjusted for the stock split.

Liquidity and Capital Resources

In addition to normal operating expenses, our primary ongoing cash requirements are for expansion, remodeling and relocation programs, including inventory purchases and capital expenditures. Our primary ongoing sources of liquidity are existing cash balances, funds provided from operations, commitments available under our revolving credit agreement, capital and operating leases and normal trade credit. Our inventory and accounts payable levels typically build in the first and third fiscal quarters in anticipation of the spring and winter selling seasons, respectively.

Financial markets experienced volatility in the past few years, resulting in disruptions in credit and lending activities. Further, disruptions in the capital and credit markets could adversely affect the ability of the banks to meet their commitments. Our access to funds under the credit facility is dependent on the ability of the banks that are parties to the facility to meet their funding commitments. Those banks may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time. We have a diversified banking group which we believe should help mitigate any potential disruptions, if one occurs.

Working Capital

At December 25, 2010, we had working capital of \$617.1 million, a \$141.2 million increase from December 26, 2009. This increase was primarily attributable to changes in the following components of current assets and current

liabilities (in millions):

	2010	2009	Variance
Current assets:			
Cash and cash equivalents	\$ 257.3	\$ 172.9	\$ 84.4
Short-term investments	15.9	--	15.9
Inventories	736.5	676.5	60.0
Prepaid expenses and other current assets	34.0	30.7	3.3
	1,043.7	880.1	163.6
Current liabilities:			
Accounts payable	\$ 247.4	\$ 261.6	\$ (14.2)
Accrued employee compensation	34.6	22.7	11.9
Other accrued expenses	127.4	100.7	26.7
Current portion of capital lease obligation	0.1	0.4	(0.3)
Income taxes payable	8.3	7.3	1.0
Deferred income taxes	8.8	11.5	(2.7)
	426.6	404.2	22.4
Working capital	\$ 617.1	\$ 475.9	\$ 141.2

In comparison to prior year end, working capital increased primarily as a result of an increase in cash and inventory. The increase in cash resulted principally from stronger earnings. The increase in inventory was primarily due to new store growth. Average inventory per store remained nearly flat at \$709,000 for fiscal 2010 compared to \$707,000 for fiscal 2009. This was partially offset by an increase in accrued expenses principally as a result of timing of payments and higher incentive compensation accruals over the prior year.

Accounts payable has declined as a result of an increase in cash held in our bank concentration account, which nets against accounts payable, as well as more timely payments in order to capture payment discounts offered by our vendors. Trade credit arises from our vendors granting payment terms for inventory purchases. Payment terms generally vary from 30 days to 180 days depending on the inventory product. Certain vendors offer payment discounts for payments made within a shorter period, typically within 10 to 15 days.

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Borrowings and Credit Facilities

We are party to a Senior Credit Facility with Bank of America, N.A., as agent for a lender group (the “Credit Agreement”), which provides for borrowings up to \$350 million (with sublimits of \$75 million and \$20 million for letters of credit and swingline loans, respectively). The Credit Agreement has an Increase Option for \$150 million (subject to additional lender group commitments). The Credit Agreement is unsecured and matures in February 2012, with proceeds expected to be used for working capital, capital expenditures and share repurchases.

At December 25, 2010 and December 26, 2009, there were no outstanding borrowings under the Credit Agreement. There were \$27.4 million and \$35.2 million outstanding letters of credit as of December 25, 2010 and December 26, 2009, respectively. Borrowings bear interest at either the bank’s base rate (3.25% at December 25, 2010) or the London Inter-Bank Offer Rate (“LIBOR”) (0.26% at December 25, 2010) plus an additional amount ranging from 0.35% to 0.90% per annum, adjusted quarterly based on our performance (0.40% at December 25, 2010). We are also required to pay, quarterly in arrears, a commitment fee ranging from 0.06% to 0.18% per annum and adjusted quarterly based on our performance, for unused capacity (0.075% at December 25, 2010). There are no compensating balance requirements associated with the Credit Agreement.

The Credit Agreement requires quarterly compliance with respect to two material covenants: a fixed charge coverage ratio and a leverage ratio. The fixed charge coverage ratio principally compares earnings before interest, taxes, depreciation, amortization, stock compensation and rent expense (“consolidated EBITDAR”) to the sum of interest paid and rental expense (excluding straight-line rent). The leverage ratio principally compares total debt plus rental expense (excluding straight-line rent) multiplied by a factor of six to consolidated EBITDAR. The Credit Agreement also contains certain other restrictions regarding additional indebtedness, capital expenditures, business operations, guarantees, investments, mergers, consolidations and sales of assets, transactions with subsidiaries or affiliates, and liens. We were in compliance with all covenants at December 25, 2010.

Sources and Uses of Cash

Our primary source of liquidity is cash provided by operations. Principal uses of cash for investing activities are capital expenditures and financing activities are payments on debt, repurchase of the Company’s common stock, and payment of common stock dividends. The following table presents a summary of cash flows from operating, investing and financing activities for the last three fiscal years (in millions):

	2010	2009	2008
Net cash provided by operating activities	\$ 222.6	\$ 215.3	\$ 217.7
Net cash used in investing activities	(112.1)	(73.8)	(88.4)
Net cash used in financing activities	(26.0)	(5.6)	(105.5)
Net increase in cash and cash equivalents	\$ 84.5	\$ 135.9	\$ 23.8

Operating Activities

The \$7.3 million increase in net cash provided by operations in fiscal 2010 over fiscal 2009 is primarily due to changes in the following operating activities (in millions):

	2010	2009	Variance
Net income	\$ 168.0	\$ 119.7	\$ 48.3
Depreciation and amortization	69.8	66.3	3.5
Stock compensation expense	11.8	12.1	(0.3)
Deferred income taxes	2.7	(11.1)	13.8

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Inventories and accounts payable	(74.3)	(29.9)	(44.4)
Prepaid expenses and other current assets	(3.2)	11.2	(14.4)
Accrued expenses	38.5	22.3	16.2
Income taxes payable	1.0	7.8	(6.8)
Other, net	8.3	16.9	(8.6)
Net cash provided by operations	\$ 222.6	\$ 215.3	\$ 7.3

Cash flow from operating activities continues to provide the primary source of our liquidity. The increase in net cash provided by operations in fiscal 2010 compared with fiscal 2009 was primarily due to stronger net income and an increase in accrued expenses partially offset by an increase in inventory, net of accounts payable, and an increase in prepaids and other current assets. Continued store growth has resulted in increased inventory balances. Accounts payable levels have decreased as a result of more timely payments in order to capture payment discounts offered by vendors and also as a result of an increase in cash held in our bank concentration account. The bank concentration account nets against the related book overdraft included in accounts payable. Accrued expenses increased as a result of timing of payments as well as incentive compensation earned in fiscal 2010 but not paid until fiscal 2011.

The \$2.4 million decrease in net cash provided by operations in fiscal 2009 over fiscal 2008 is primarily due to changes in the following operating activities (in millions):

	2009	2008	Variance
Net income	\$ 119.7	\$ 108.0	\$ 11.7
Depreciation and amortization	66.3	60.7	5.6
Stock compensation expense	12.1	12.3	(0.2)
Deferred income taxes	(11.1)	18.5	(29.6)
Inventories and accounts payable	(29.9)	18.2	(48.1)
Prepaid expenses and other current assets	11.2	1.0	10.2
Accrued expenses	22.3	(1.8)	24.1
Income taxes payable	7.8	(6.3)	14.1
Other, net	16.9	7.1	9.8
Net cash provided by operations	\$ 215.3	\$ 217.7	\$ (2.4)

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The decrease in net cash provided by operations in fiscal 2009 compared with fiscal 2008 was due to changes in inventory levels and the timing of payments, partially offset by higher net income and an increase in accrued expenses. Inventory levels remained nearly flat in 2009 compared to 2008 due to a continued focus on inventory management in 2009. Accounts payable levels have decreased substantially as a result of more timely payments to capture payment discounts offered by vendors. Accrued expenses increased as a result of timing of payments as well as incentive compensation earned in fiscal 2009 but not paid until fiscal 2010.

Investing Activities

Investing activities used \$112.1 million, \$73.8 million and \$88.4 million in fiscal 2010, 2009 and 2008, respectively. The majority of this cash requirement relates to our capital expenditures. Our significant store expansion, coupled with required investment in infrastructure, resulted in the following capital expenditures, including capital leases (in millions):

	2010	2009	2008
New and relocated stores and stores not yet opened	\$ 28.6	\$ 31.7	\$ 39.8
Distribution center capacity and improvements	18.1	4.3	16.2
Existing stores	17.6	18.4	10.0
Information technology	14.9	17.6	17.2
Purchase of previously leased stores	11.6	--	8.5
Corporate and other	5.7	2.0	0.1
	\$ 96.5	\$ 74.0	\$ 91.8

Our long-term growth strategy anticipates continued geographic market expansion and further concentration within existing markets. This growth will also require continuing investment in information technology. The costs reflected above are typically building improvements, as we lease the majority of our facilities. We currently estimate that capital expenditures will range between \$150 million and \$160 million in fiscal 2011. While we plan to open only a few more stores in 2011 compared to 2010, we expect to have additional capital expenditures next year as we construct a new distribution center and implement a comprehensive warehouse management system designed to improve throughput and efficiencies in the distribution center network, along with other efficiency-driving system enhancements in 2011.

Financing Activities

Financing activities used \$26.0 million, \$5.6 million, and \$105.5 million in fiscal 2010, 2009 and 2008, respectively. The cash used by financing activities in fiscal 2010 is mainly the result of quarterly cash dividends paid to stockholders and repurchases of common stock, partially offset by increased net proceeds from issuance of common stock related to share-based compensation.

We have a Board-approved share repurchase program which provides for repurchase of up to \$400 million of common stock, exclusive of any fees, commissions, or other expenses related to such repurchases, through December 2011. The repurchases may be made from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased under the program will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability, and other market conditions. Repurchased shares will be held in treasury. The program may be limited or terminated at any time without prior notice.

We repurchased approximately 0.8 million, 0.4 million and 1.6 million shares under the share repurchase program for a total cost of \$38.2 million, \$15.3 million and \$53.9 million in fiscal 2010, 2009 and 2008, respectively. As mentioned in Note 1 – Significant Accounting Policies in Part II of this Form 10-K, the shares added to treasury were not adjusted for the stock split. Repurchased shares are accounted for at cost and will be held in treasury for future issuance. As of December 25, 2010, we had remaining authorization under the share repurchase program of \$142.8 million exclusive of any fees, commissions, or other expenses.

We believe that our existing cash balances, expected cash flow from future operations, borrowings available under the Credit Agreement, and normal trade credit will be sufficient to fund our operations and our capital expenditure needs, including store openings, relocations and renovations, over the next several years.

Significant Contractual Obligations and Commercial Commitments

The following table reflects our future obligations and commitments as of December 25, 2010 (in thousands):

	Payment Due by Period				
	Total Contractual Obligations	Less than 1 year	1-3 years	4-5 years	More than 5 years
Operating leases	\$ 1,545,028	\$ 174,846	\$ 335,140	\$ 297,282	\$ 737,760
Capital leases (1)	2,716	206	292	292	1,926
Purchase obligations (2)	32,242	32,242	--	--	--
	\$ 1,579,986	\$ 207,294	\$ 335,432	\$ 297,574	\$ 739,686

(1) Capital lease obligations include related interest.

(2) The amounts for purchase obligations include commitments for construction of stores and a distribution center expected to be opened in fiscal 2011.

The Company had outstanding letters of credit of \$27.4 million as of December 25, 2010.

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Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist of operating leases and outstanding letters of credit. The balances for these arrangements are discussed above. We typically lease buildings for retail stores and offices rather than acquiring these assets which allows us to utilize financial capital to operate the business rather than invest in fixed assets. Letters of credit allow us to purchase inventory, primarily sourced overseas, and support certain risk management programs in a timely manner.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) Topic 810 (originally issued as Statement of Financial Accounting Standards No. 167, “Amendments to FASB Interpretation No. (“FIN”) 46(R)”). Among other items, ASC 810 responds to concerns about an enterprise’s application of certain key provisions of FIN 46(R), including those regarding the transparency of the enterprise’s involvement with variable interest entities. ASC 810 is effective for the first annual period that begins after November 15, 2009, and for interim periods within that first annual reporting period. The Company adopted the standard for the interim period ended March 27, 2010. There was no impact on the Company’s financial position, results of operations, cash flows, or disclosures.

In February 2010, the FASB issued Accounting Standards Update No. 2010-09 (ASU No. 2010-09), “Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements.” The amendments remove the requirements for an SEC filer to disclose a date, in both issued and revised financial statements, through which subsequent events have been reviewed. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. ASU No. 2010-09 was effective upon issuance. The adoption of this guidance did not have an impact on our financial condition, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We may be exposed to changes in interest rates primarily from the Credit Agreement. The Credit Agreement bears interest at either the bank’s base rate (3.25% at both December 25, 2010 and December 26, 2009) or LIBOR (0.26% and 0.23% at December 25, 2010 and December 26, 2009, respectively) plus an additional amount ranging from 0.35% to 0.90% per annum, adjusted quarterly, based on our performance (0.40% and 0.50% at December 25, 2010 and December 26, 2009, respectively). We are also required to pay (quarterly in arrears) a commitment fee ranging from 0.06% to 0.18% based on the daily average unused portion of the credit line (0.075% at December 25, 2010 and 0.10% December 26, 2009).

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Tractor Supply Company

We have audited Tractor Supply Company's internal control over financial reporting as of December 25, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Tractor Supply Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Tractor Supply Company maintained, in all material respects, effective internal control over financial reporting as of December 25, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Tractor Supply Company as of December 25, 2010 and December 26, 2009 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 25, 2010 and our report dated February 23, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 23, 2011

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Tractor Supply Company

We have audited the accompanying consolidated balance sheets of Tractor Supply Company as of December 25, 2010 and December 26, 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 25, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tractor Supply Company at December 25, 2010 and December 26, 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 25, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company has elected to change its method of accounting for inventory from the lower of cost, as determined by the last-in first-out (LIFO) method, or market, to the lower of cost, as determined by the average cost method, or market, effective December 25, 2010.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Tractor Supply Company's internal control over financial reporting as of December 25, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 23, 2011

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TRACTOR SUPPLY COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	2010	Fiscal Year 2009	2008
Net sales	\$3,638,336	\$3,206,937	\$3,007,949
Cost of merchandise sold	2,434,671	2,165,048	2,052,894
Gross margin	1,203,665	1,041,889	955,055
Selling, general and administrative expenses	867,644	784,066	715,961
Depreciation and amortization	69,797	66,258	60,731
Operating income	266,224	191,565	178,363
Interest expense, net	1,284	1,644	2,133
Income before income taxes	264,940	189,921	176,230
Income tax expense	96,968	70,176	68,237
Net income	\$167,972	\$119,745	\$107,993
Net income per share – basic(a)	\$2.31	\$1.66	\$1.47
Net income per share – assuming dilution(a)	\$2.25	\$1.63	\$1.44
Weighted average shares outstanding:(a)			
Basic	72,597	71,981	73,661
Diluted	74,686	73,297	74,927
Dividends declared per common share outstanding (a)	\$0.28	\$--	\$--

(A)ll share and per share information has been adjusted to reflect the two-for-one stock split as discussed in Note 1.

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TRACTOR SUPPLY COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	December 25, 2010	December 26, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$257,339	\$172,851
Short-term investments	15,913	--
Inventories	736,520	676,466
Prepaid expenses and other current assets	33,945	30,747
Total current assets	1,043,717	880,064
Property and Equipment:		
Land	30,350	27,646
Buildings and improvements	380,228	350,505
Furniture, fixtures and equipment	256,369	226,967
Computer software and hardware	94,878	88,700
Construction in progress	20,961	11,562
	782,786	705,380
Accumulated depreciation and amortization	(386,997)	(335,135)
Property and equipment, net	395,789	370,245
Goodwill	10,258	10,258
Deferred income taxes	5,750	11,091
Other assets	7,960	4,922
Total assets	\$1,463,474	\$1,276,580
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$247,388	\$261,635
Accrued employee compensation	34,576	22,725
Other accrued expenses	127,386	100,695
Current portion of capital lease obligations	91	392
Income taxes payable	8,269	7,265
Deferred income taxes	8,854	11,505
Total current liabilities	426,564	404,217
Revolving credit loan	--	--
Capital lease obligations, less current maturities	1,316	1,407
Deferred rent	70,697	63,470
Other long-term liabilities	31,655	28,335
Total liabilities	530,232	497,429
Stockholders' equity:		
Preferred Stock, 40,000 shares authorized; \$1.00 par value; no shares issued	--	--

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Common Stock, 100,000,000 shares authorized, \$.008 par value; 78,835,508 shares issued and 72,775,862 shares outstanding at December 25, 2010 and 77,386,151 shares issued and 72,152,816 shares outstanding at December 26, 2009	631	619
Additional paid-in capital	235,283	190,649
Treasury stock, at cost, 6,059,646 shares at December 25, 2010 and 5,233,335 shares at December 26, 2009	(257,376)	(219,204)
Retained earnings	954,704	807,087
Total stockholders' equity	933,242	779,151
Total liabilities and stockholders' equity	\$1,463,474	\$1,276,580

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TRACTOR SUPPLY COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Common Stock (a)	Additional Paid-in Capital (a)	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Stockholders' equity at December 29, 2007	\$ 625	\$ 151,018	\$ (150,049)	\$ 563,743	\$ 565,337
Cumulative effect of change in accounting method in prior years(b)				15,606	15,606
Stockholders' equity at December 29, 2007	625	151,018	(150,049)	579,349	580,943
Issuance of common stock under employee stock purchase plan (122,696 shares)(a)	1	1,679			1,680
Exercise of stock options (226,638 shares) and restricted stock units (2,020 shares)(a)	2	1,468			1,470
Stock compensation		12,257			12,257
Tax benefit of stock options exercised		1,322			1,322
Repurchase of common stock (1,598,114 shares)(a)	(13)	13	(53,866)		(53,866)
Net income, as adjusted(b)				107,993	107,993
Stockholders' equity at December 27, 2008	615	167,757	(203,915)	687,342	651,799
Issuance of common stock under employee stock purchase plan (101,470 shares)(a)	1	1,630			1,631
Exercise of stock options (755,348 shares) and restricted stock units (10,896 shares)(a)	6	4,342			4,348
Stock compensation		12,130			12,130
Tax benefit of stock options exercised		4,787			4,787
Repurchase of common stock (419,034 shares)(a)	(3)	3	(15,289)		(15,289)
Net income, as adjusted(b)				119,745	119,745
Stockholders' equity at December 26, 2009	619	190,649	(219,204)	807,087	779,151
	1	1,739			1,740

Issuance of common stock under employee stock purchase plan (74,788 shares)(a)					
Exercise of stock options (1,550,077 shares) and restricted stock units (90,203 shares)(a)	13	22,125			22,138
Stock compensation		11,771			11,771
Tax benefit of stock options exercised		9,780			9,780
Restricted stock units withheld for taxes		(783)			(783)
Repurchase of common stock (826,311 shares)(a)	(2)	2	(38,172)		(38,172)
Dividends paid				(20,355)	(20,355)
Net income				167,972	167,972
Stockholders' equity at December 25, 2010	\$ 631	\$ 235,283	\$ (257,376)	\$ 954,704	\$ 933,242

- (a) All share and per share information has been adjusted to reflect the two-for-one stock split, except for repurchase of common stock as the number of shares held in treasury was not adjusted for the split. See Note 1 for more information.
- (b) Net income and retained earnings for all periods prior to 2010 have been adjusted to reflect the change in accounting for inventory. See Note 1 for more information.

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TRACTOR SUPPLY COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	2010	Fiscal Year 2009	2008
Cash flows from operating activities:			
Net income	\$ 167,972	\$ 119,745	\$ 107,993
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	69,797	66,258	60,731
Net loss (gain) on disposition of property and equipment	1,062	213	(425)
Stock compensation expense	11,771	12,130	12,257
Deferred income taxes	2,690	(11,139)	18,531
Change in assets and liabilities:			
Inventories	(60,054)	(4,745)	(10,241)
Prepaid expenses and other current assets	(3,201)	11,164	1,007
Accounts payable	(14,247)	(25,193)	28,482
Accrued employee compensation	11,851	12,476	(590)
Other accrued expenses	26,691	9,838	(1,174)
Income taxes payable	1,004	7,801	(6,359)
Other	7,272	16,769	7,514
Net cash provided by operating activities	222,608	215,317	217,726
Cash flows from investing activities:			
Capital expenditures	(96,511)	(73,974)	(91,759)
Proceeds from sale of property and equipment	313	97	3,324
Purchases of short-term investments	(15,913)	--	--
Net cash used in investing activities	(112,111)	(73,877)	(88,435)
Cash flows from financing activities:			
Borrowings under revolving credit agreement	--	274,033	853,903
Repayments under revolving credit agreement	--	(274,033)	(908,903)
Excess tax benefit of stock options exercised	9,815	4,280	1,085
Principal payments under capital lease obligations	(392)	(548)	(851)
Restricted stock units withheld to satisfy tax obligations	(783)	--	--
Repurchase of common stock	(38,172)	(15,289)	(53,866)
Net proceeds from issuance of common stock	23,878	5,979	3,150
Cash dividends paid to stockholders	(20,355)	--	--
Net cash used in financing activities	(26,009)	(5,578)	(105,482)
Net increase in cash	84,488	135,862	23,809
Cash and cash equivalents at beginning of year	172,851	36,989	13,180

Cash and cash equivalents at end of year	\$257,339	\$172,851	\$36,989
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$305	\$838	\$3,890
Income taxes	82,821	66,888	55,476

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Note 1 – Significant Accounting Policies:

Nature of Business

Tractor Supply Company (the “Company”, “we”, “us” and/or “our”) is the largest operator of retail farm and ranch stores in the United States. We are focused on supplying the lifestyle needs of recreational farmers and ranchers and those who enjoy the rural lifestyle, as well as tradesmen and small businesses. Stores are located in towns outlying major metropolitan markets and in rural communities. Our wholly-owned subsidiary, Del’s Farm Supply, LLC (“Del’s”) operated 26 stores as of December 25, 2010. At December 25, 2010, we operated a total of 1,001 retail farm and ranch stores in 44 states and also offered a number of products online at TractorSupply.com.

Fiscal Year

Our fiscal year ends on the last Saturday of the calendar year and includes 52 or 53 weeks. The fiscal years ended December 25, 2010, December 26, 2009 and December 27, 2008 consist of 52 weeks.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

Change in Accounting Method

Effective December 25, 2010, the Company elected to change its method of accounting for inventories from lower of cost, as determined by the LIFO method, or market, to lower of cost, as determined by the average cost method, or market. The Company believes the change is preferable as the average cost method better reflects the current value of inventory on the consolidated balance sheets, provides a better reflection of periodic income and improves comparability with our peers.

The Company has applied this change in method of inventory costing retrospectively to all prior periods presented herein in accordance with accounting principles relating to accounting changes. As a result of the retrospective change in accounting principle, opening retained earnings as of December 29, 2007 increased by \$15.6 million. The effect of the change in method on previously reported consolidated operating results for fiscal 2009 and 2008 was to increase net income by \$4.3 million (\$0.05 per dilutive share), and \$26.1 million (\$0.35 per dilutive share), respectively. The effect on the consolidated balance sheet at December 26, 2009 was to increase inventory, tax liabilities and retained earnings by \$75.2 million, \$29.3 million and \$45.9 million, respectively.

Certain components of the Company’s financial statements affected by the change in costing methodology as originally reported under the LIFO method and as adjusted for the change to the average cost method are as follows (in thousands, except per share data):

	Fiscal 2009			Fiscal 2008		
	As Previously Reported	Effect of Change	As Adjusted	As Previously Reported	Effect of Change	As Adjusted
Consolidated Statements of Income						
Cost of merchandise sold	\$2,171,980	\$(6,932)	\$2,165,048	\$2,095,688	\$(42,794)	\$2,052,894
Gross margin	1,034,957	6,932	1,041,889	912,261	42,794	955,055

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Operating income	184,633	6,932	191,565	135,569	42,794	178,363
Income before income taxes	182,989	6,932	189,921	133,436	42,794	176,230
Income tax expense	67,523	2,653	70,176	51,506	16,731	68,237
Net income	\$115,466	\$4,279	\$119,745	\$81,930	\$26,063	\$107,993
Net income per share – basic	\$1.60	\$0.06	\$1.66	\$1.11	\$0.36	\$1.47
Net income per share – assuming dilution	\$1.58	\$0.05	\$1.63	\$1.09	\$0.35	\$1.44

Fiscal 2009

	As Previously Reported *	Effect of Change	As Adjusted
Consolidated Balance Sheets			
Inventories	\$ 601,249	\$ 75,217	\$ 676,466
Deferred income taxes (current asset)	17,909	(17,909)	--
Total current assets	822,756	57,308	880,064
Deferred income taxes	11,091	--	11,091
Total assets	1,219,272	57,308	1,276,580
Income taxes payable	7,605	(340)	7,265
Deferred income taxes (current liability)	--	11,505	11,505
Total current liabilities	393,052	11,165	404,217
Other long-term liabilities	28,140	195	28,335
Total liabilities	486,069	11,360	497,429
Retained earnings	761,139	45,948	807,087
Total stockholders' equity	733,203	45,948	779,151
Total liabilities and stockholders' equity	1,219,272	57,308	1,276,580

* As described below, certain other amounts in the previously issued balance sheet have been reclassified to conform to the fiscal 2010 presentation.

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	Fiscal 2009			Fiscal 2008		
	As Previously Reported	Effect of Change	As Adjusted	As Previously Reported	Effect of Change	As Adjusted
Consolidated Statements of Cash Flows						
Net income	\$115,466	\$4,279	\$119,745	\$81,930	\$26,063	\$107,993
Adjustments to reconcile net income to net cash provided by operating activities:						
Deferred income taxes	(13,597)	2,458	(11,139)	1,566	16,965	18,531
Inventories	2,186	(6,931)	(4,745)	32,553	(42,794)	(10,241)
Income taxes payable	7,605	196	7,801	(5,928)	(431)	(6,359)
Other	16,771	(2)	16,769	7,317	197	7,514
Net cash provided by operating activities	\$215,317	\$--	\$215,317	\$217,726	\$--	\$217,726

Stock Split

On July 29, 2010, our Board of Directors announced a two-for-one split of our outstanding shares of common stock to be effected in the form of a stock dividend. On September 2, 2010, stockholders of record at the close of business on August 19, 2010, were issued one additional share of common stock for each share owned by such stockholder. The stock split increased the number of shares of common stock outstanding from approximately 36.3 million to approximately 72.7 million. Share and per-share amounts (including stock options and restricted stock units) shown in the consolidated financial statements and related notes reflect the split. The total number of authorized common shares and the par value thereof was not changed by the split. The number of shares held in treasury was not adjusted for the split.

Reclassifications

Certain amounts in previously issued financial statements have been reclassified to conform to the fiscal 2010 presentation. Marketing support fund receivables due from vendors previously classified in prepaid expenses and other current assets have been reclassified to reduce vendor accounts payable (\$11.6 million at December 26, 2009). Amounts related to accrued employee compensation (\$22.7 million at December 26, 2009) have been reclassified from other accrued expenses to accrued employee compensation. A portion of the liabilities related to self-insured workers' compensation and general liability claims (\$14.0 million at December 26, 2009) previously classified in other accrued expenses have been reclassified to other long-term liabilities to reflect their long-term status. Also amounts related to tenant improvement allowances (\$18.0 million at December 26, 2009) previously classified in other long-term liabilities and amounts related to straight-line rent (\$45.5 million at December 26, 2009) previously classified as straight-line rent liability have been reclassified as deferred rent to conform to the December 25, 2010 presentation.

These changes have affected our December 26, 2009 Consolidated Balance Sheet and the Consolidated Statements of Cash Flows for the fiscal years ended December 26, 2009 and December 27, 2008.

Segment Information

Tractor Supply Company has one reportable industry segment which is the operation of farm and ranch retail stores. We also offer a number of products online at TractorSupply.com.

Management Estimates

Our preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States inherently requires estimates and assumptions by us that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures. Actual results could differ from those estimates.

Significant estimates and assumptions by management primarily impact the following key financial statement areas:

Revenue Recognition and Sales Returns

We recognize revenue at the time the customer takes possession of merchandise. If we receive payment before the customer has taken possession of the merchandise (as per our special order and layaway programs), the revenue is deferred until the sale is complete.

We are required to collect certain taxes and fees from customers on behalf of government agencies and remit such collections to the applicable governmental entity on a periodic basis. These taxes are collected from customers at the time of purchase, but are not included in net sales. We record a liability upon collection from the customer and relieve the liability when payments are remitted to the applicable governmental agency.

We estimate a liability for sales returns based on a rolling average of historical return trends, and we believe that our estimate for sales returns is an accurate reflection of future returns associated with past sales. Our estimation methodologies have been consistently applied from year to year; however, as with any estimate, refund activity may vary from estimated amounts. At December 25, 2010 we had a liability of \$3.0 million reserved for sales returns, compared to \$3.1 million at December 26, 2009.

We recognize revenue when a gift card or merchandise return card is redeemed by the customer and recognize income when the likelihood of the gift card or merchandise return card being redeemed by the customer is remote (referred to as "breakage"). The gift card and merchandise return card breakage rate is based upon historical redemption patterns and income is recognized for unredeemed gift card and merchandise return cards in proportion to those historical redemption patterns. We recognized income of \$1.6 million, \$1.1 million and \$1.4 million in fiscal 2010, 2009 and 2008, respectively.

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Inventory Valuation

Inventory Impairment Risk

We identify potentially excess and slow-moving inventory by evaluating turn rates, historical and expected future sales trends, age of merchandise, overall inventory levels, current cost of inventory and other benchmarks. The estimated inventory valuation reserve to recognize any impairment in value (i.e. an inability to realize the full carrying value) is based on our aggregate assessment of these valuation indicators under prevailing market conditions and current merchandising strategies. We do not believe our merchandise inventories are subject to significant risk of obsolescence in the near term. However, changes in market conditions or consumer purchasing patterns could result in the need for additional reserves.

Shrinkage

We perform physical inventories at each store at least once a year, and we have established reserves for estimating inventory shrinkage between physical inventory counts. The reserve is established by assessing the chain-wide average shrinkage experience rate, applied to the related periods' sales volumes. Such assessments are updated on a regular basis for the most recent individual store experiences. The estimated store inventory shrink rate is based on historical experience. We believe historical rates are a reasonably accurate reflection of future trends.

Vendor Support

We receive funding from substantially all of our significant merchandise vendors for the promotion of our brand as well as the sale of their products through a variety of programs and arrangements, including guaranteed funding and volume rebate programs. The amounts received are subject to terms of vendor agreements, which have varying expiration dates ranging in duration from several months to a few years. Many agreements are negotiated annually and are based on expected annual purchases of the vendor's product. Vendor funding is initially deferred as a reduction of the purchase price of inventory and then recognized as a reduction of cost of merchandise as the related inventory is sold.

During the interim periods, the amount of expected funding is estimated based upon initial guaranteed commitments, as well as anticipated purchase levels with applicable vendors. The estimated purchase volume and related vendor funding is based on our current knowledge of inventory levels, sales trends and expected customer demand, as well as planned new store openings and relocations. Although we believe we can reasonably estimate purchase volume and related vendor funding at interim periods, it is possible that actual year-end results could differ significantly from the previously estimated amounts.

Freight

We incur various types of transportation and delivery costs in connection with inventory purchases and distribution. Such costs are included as a component of the overall cost of inventories (on an aggregate basis) and recognized as a component of cost of merchandise sold as the related inventory is sold.

Share-Based Compensation

We have share-based compensation plans, which include incentive and non-qualified stock options, restricted stock units, and an employee stock purchase plan, covering certain members of management and non-employee directors.

We estimate the fair value of our stock option awards at the date of grant utilizing a Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. However, key assumptions used in the Black-Scholes model are adjusted to incorporate the unique characteristics of our stock option awards. Option pricing models and generally accepted valuation techniques require management to make subjective assumptions including expected stock price volatility, expected dividend yield, risk-free interest rate and expected life. We rely on historical

volatility trends to estimate future volatility assumptions. The risk-free interest rates used were actual U.S. Treasury Constant Maturity rates for bonds matching the expected term of the option on the date of grant. The expected life of the option on the date of grant was estimated based on our historical experience for similar options.

In addition to the key assumptions used in the Black-Scholes model, the estimated forfeiture rate at the time of valuation (which is based on historical experience for similar options) is a critical assumption, as it reduces expense ratably over the vesting period. We adjust this estimate periodically, based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

We believe our estimates are reasonable in the context of historical experience. Future results will depend on, among other matters, levels of share-based compensation granted in the future, actual forfeiture rates and the timing of option exercises.

Self-Insurance Reserves

We self-insure a significant portion of our employee medical insurance, workers' compensation and general liability insurance plans. We have stop-loss insurance policies to protect from individual losses over specified dollar values. The full extent of certain claims, especially workers' compensation and general liability claims, may not become fully determined for several years. Therefore, we estimate potential obligations for liabilities that have been incurred but not yet reported based upon historical data and experience. Although we believe the reserves established for these obligations are reasonably estimated, any significant increase in the number of claims or costs associated with claims made under these plans could have a material adverse effect on our financial results. At December 25, 2010, we had recorded net insurance reserves of \$29.0 million compared to \$23.7 million at December 26, 2009.

Sales Tax Audit Reserve

A portion of our sales are to tax-exempt customers. We obtain exemption information as a necessary part of each tax-exempt transaction. Many of the states in which we conduct business will perform audits to verify our compliance with applicable sales tax laws. The business activities of our customers and the intended use of the unique products sold by us create a challenging and complex compliance environment. These circumstances also create some risk that we could be challenged as to the propriety of our sales tax compliance. While we believe we reasonably enforce sales tax compliance with our customers and endeavor to fully comply with all applicable sales tax regulations, there can be no assurance that we, upon final completion of such audits, will not have a significant liability for disallowed exemptions.

We review our past audit experience and assessments with applicable states to determine if we have potential exposure for non-compliance. Any estimated liability is based on an initial assessment of compliance risk and our to-date experience with each audit. As each audit progresses, we quantify the exposure based on preliminary assessments made by the state auditors, adjusted for additional documentation that may be provided to reduce the assessment. The reserve for these tax audits can fluctuate depending on numerous factors, including the complexity of agricultural-based exemptions, ambiguity in state tax regulations, the number of ongoing audits and the length of time required to settle with the state taxing authorities.

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Tax Contingencies

Our income tax returns are periodically audited by U.S. federal and state tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any time, multiple tax years are subject to audit by the various tax authorities. In evaluating the exposures associated with our various tax filing positions, we record reserves for probable exposures. A number of years may elapse before a particular matter, for which we have established a reserve, is audited and fully resolved or clarified. We adjust our tax contingencies reserve and income tax provision in the period in which actual results of a settlement with tax authorities differs from our established reserve, the statute of limitations expires for the relevant tax authority to examine the tax position or when more information becomes available.

We recognize a liability for certain tax benefits that do not meet the minimum requirements for recognition in the financial statements.

Our tax contingencies reserve contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with our various filing positions and whether or not the minimum requirements for recognition of tax benefits have been met.

Our effective income tax rate is also affected by changes in tax law, the tax jurisdiction of new stores or business ventures, the level of earnings and the results of tax audits.

Credit Cards/Accounts Receivable

Sales generated through our private label credit cards are not reflected as accounts receivable. Under an agreement with Citi Cards, a division of Citigroup (“Citigroup”), consumer and business credit is extended directly to customers by Citigroup. All credit program and related services are performed and controlled directly by Citigroup.

Pre-opening Costs

Non-capital expenditures incurred in connection with opening new store and distribution centers, primarily payroll and rent, are expensed as incurred. Preopening costs were approximately \$7.1 million, \$7.5 million and \$8.7 million in 2010, 2009 and 2008, respectively.

Store Closing Costs

We regularly evaluate the performance of our stores and periodically close those that are under-performing. We record a liability for a cost associated with an exit or disposal activity when the liability is incurred, usually in the period the store closes. Store closing costs were not significant to results of operations for any of the fiscal years presented.

Cash and Cash Equivalents

Temporary cash investments, with a maturity of three months or less when purchased, are considered to be cash equivalents. The majority of payments due from banks for customer credit card transactions process within 24-48 hours and are accordingly classified as cash and cash equivalents.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Financial Instruments Not Carried at Fair Value

Our financial instruments consist of cash and cash equivalents, short-term investments, short-term receivables, trade payables and long-term debt instruments. The carrying values of cash and cash equivalents, short-term receivables and trade payables approximate current fair value. We had no borrowings under the revolving credit facility at December 25, 2010 and December 26, 2009.

Our short-term investment in a U.S. Treasury note is classified as Level 1 as these types of investments trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The U.S. Treasury note is held as collateral for a standby letter of credit and is expected to be held to maturity. The fair value of short-term investments at December 25, 2010 was \$15.9 million. We had no short-term investments at December 26, 2009.

Inventories

Inventories are stated at the lower of cost, as determined by the average cost method, or market. Inventory cost consists of the direct cost of merchandise including freight. Inventories are net of shrinkage, obsolescence, other valuations and vendor allowances.

Vendor Concentration

Approximately 250 vendors accounted for 90% of our purchases for fiscal 2010, with no one vendor representing more than 10% of purchases during the year.

Cost of Merchandise Sold

Cost of merchandise sold includes the total cost of products sold; freight expenses associated with moving merchandise inventories from our vendors to our distribution centers; from our distribution centers to our retail stores; and from one distribution center to another; vendor support; damaged, junked or defective product; cash discounts from payments to merchandise vendors; and adjustments for shrinkage (physical inventory losses), lower of cost or market valuation, slow moving product and excess inventory quantities.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses (“SG&A”) include payroll and benefit costs for retail, distribution center and corporate employees; occupancy costs of retail, distribution center and corporate facilities; advertising; tender costs, including bank charges and costs associated with credit and debit card interchange fees; outside service fees; and other administrative costs, such as computer maintenance, supplies, travel and lodging.

Warehousing and Distribution Costs

Costs incurred at our distribution centers for receiving, warehousing and preparing product for delivery are expensed as incurred and are included in SG&A expenses in the Consolidated Statements of Income. Because the Company does not include these costs in cost of sales, the Company’s gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Distribution center costs for fiscal 2010, 2009 and 2008 were approximately \$64.4 million, \$59.0 million and \$52.8 million, respectively.

Property and Equipment

Property and equipment are carried at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Improvements to leased premises are amortized using the straight-line method over the initial term of the lease or the useful life of the improvement, whichever is less. Leasehold improvements added late in the lease term are amortized over the term of the lease (including the first renewal option, if the renewal is reasonably assured) or the useful life of the improvement, whichever is less. The following estimated useful lives are generally applied:

	Life
Buildings	30 – 35 years
Leasehold and building improvements	5 – 35 years
Furniture, fixtures and equipment	5 – 10 years
Computer software and hardware	3 – 5 years

Depreciation and Amortization

Depreciation includes expenses related to all retail, distribution center and corporate assets. Amortization includes expenses related to definite-lived intangible assets.

Capitalized Software Costs

The Company capitalizes certain costs related to the acquisition and development of software and amortizes these costs using the straight-line method over the estimated useful life of the software, which is three to five years. These costs are included in computer software and hardware in the accompanying Consolidated Balance Sheets. Certain software costs not meeting the criteria for capitalization are expensed as incurred.

Leases

Assets under capital leases are amortized in accordance with our normal depreciation policy for owned assets or over the lease term, if shorter, and the related charge to operations is included in depreciation expense in the Consolidated Statements of Income.

Certain leases include rent increases during the initial lease term. For these leases, we recognize the related rental expense on a straight-line basis over the term of the lease (which includes the pre-opening period of construction, renovation, fixturing and merchandise placement) and record the difference between the expense charged to operations and amounts paid as a deferred rent liability.

We occasionally receive reimbursements from landlords to be used towards improving the related store to be leased. Reimbursements are primarily for the purpose of performing work required to divide a much larger location into smaller segments, one of which we will use for our store. This work could include the addition of demising walls, separation of plumbing, utilities, electric work, entrances (front and back) and other work as required. Leasehold improvements are recorded at their gross costs including items reimbursed by landlords. Related reimbursements are amortized on a straight-line basis as a reduction of rent expense over the initial lease term.

Impairment of Long-Lived Assets

Long-lived assets other than goodwill and indefinite-lived intangible assets, which are separately tested for impairment, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated undiscounted future cash flows. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The significant assumptions used to determine estimated undiscounted cash flows include cash inflows and outflows directly resulting from the use of those assets in operations, including margin on net sales, payroll and related items, occupancy costs, insurance allocations and other costs to operate a store. If the estimated future cash flows are less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based on an estimated future cash flow model. We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.

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In fiscal 2010, the company recognized impairment charges of \$1.1 million related to the write-off of certain capitalized software development costs. These assets were not expected to provide any future benefit to the Company and were determined to have no significant fair value. During fiscal year 2009 impairment charges of \$0.8 million were recorded representing the amount required to write-down the carrying value of certain leasehold improvements to the assets' estimated fair value. Impairment charges are included in SG&A expenses in the Consolidated Statement of Income. No significant impairment charges were recognized in fiscal 2008.

Goodwill

Goodwill and intangible assets with indefinite lives are not amortized. We evaluate goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of the goodwill may not be recoverable. We complete our impairment evaluation by performing internal valuation analyses, considering other publicly available market information and using an independent valuation firm, as appropriate. All goodwill at December 25, 2010 is associated with the Company as a whole. At December 26, 2009 all goodwill was associated with the Del's business and, for purposes of the fiscal 2009 impairment testing, Del's was considered the reporting unit. In October 2010, we reevaluated the Del's reporting unit and concluded that since Del's has become closely aligned in terms of management, infrastructure, philosophy and performance, we now have only one reporting unit for goodwill impairment evaluation.

The test for goodwill impairment is a two step process. The first step of the goodwill impairment test, used to identify the potential for impairment, compares the fair value of a reporting unit with the carrying value of its net assets, including goodwill. If the fair value of the reporting unit is less than the carrying value of the reporting unit, the second step of the goodwill impairment test is performed to measure the amount of impairment loss to be recorded, if any. The second step, if required, would compare the implied fair value of goodwill with the current carrying amount of goodwill. If the implied fair value of goodwill is less than the carrying value, an impairment charge would be recorded as a charge to our operations.

In the fourth quarter of fiscal 2010, we completed our annual impairment testing of goodwill and determined there was no impairment. We determined that the fair value of the reporting unit (including goodwill) was in excess of the carrying value of the reporting unit and as such, the second step was not necessary. In reaching this conclusion, the fair value of the reporting unit was determined based on a market approach. Under the market approach, the fair value is based on observed market prices.

Advertising Costs

Advertising costs consist of expenses incurred in connection with newspaper circulars, television and radio, as well as direct mail, newspaper advertisements and other promotions. Costs are expensed when incurred with the exception of television advertising and circular and direct mail promotions, which are expensed upon first showing. Advertising expenses for fiscal 2010, 2009 and 2008 were approximately \$48.6 million, \$45.7 million and \$58.0 million, respectively. Prepaid advertising costs were approximately \$0.1 million and \$0.2 million at December 25, 2010 and December 26, 2009, respectively.

Income Taxes

We account for income taxes using the liability method, whereby deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to be recovered or settled.

Net Income Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted EPS is calculated by dividing net income by the weighted average diluted shares outstanding. Diluted shares are computed using the treasury stock method for options and restricted stock units.

Note 2 - Share-Based Compensation:

Share-based compensation includes stock option and restricted stock unit awards and certain transactions under our Employee Stock Purchase Plan (the "ESPP"). Share-based compensation expense is recognized based on grant date fair value of all options and restricted stock unit awards plus a discount on shares purchased by employees as a part of the ESPP. The discount under the ESPP represents the difference between the grant date market value and the employee's purchase price.

Share-based compensation expense including reductions in expense for modifications of awards was \$11.8 million, \$12.1 million and \$12.3 million for fiscal 2010, 2009 and 2008, respectively.

Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

Effective May 7, 2009, the Company adopted the 2009 Stock Incentive Plan replacing the 2006 Stock Incentive Plan. Following the adoption of the 2009 Stock Incentive Plan, no further grants may be made under the 2006 Stock Incentive Plan.

Under our 2009 Stock Incentive Plan, options may be granted to officers, non-employee directors and other employees. The per share exercise price of options granted shall not be less than the fair market value of the stock on the date of grant and such options will expire no later than ten years from the date of grant. Also, the aggregate fair market value of the stock with respect to which incentive stock options are exercisable on a tax deferred basis for the first time by an individual in any calendar year may not exceed \$100,000. Vesting of options commences at various anniversary dates following the dates of grant.

Under the terms of the 2009 Stock Incentive Plan, a maximum of 6,200,000 shares are available for grant as stock options or other awards. At December 25, 2010, we had 5,146,530 shares available for future equity awards under the Company's 2009 Stock Incentive Plan.

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The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is recognized as compensation expense ratably over the vesting period. We have estimated the fair value of all stock option awards as of the date of the grant by applying a Black-Scholes pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The weighted averages for key assumptions used in determining the fair value of options granted during fiscal 2010, 2009 and 2008, as well as a summary of the methodology applied to develop each assumption, are as follows:

	Fiscal Year		
	2010	2009	2008
Expected price volatility	38.5 – 38.9 %	39.3 – 54.0 %	37.6 – 39.7 %
Risk-free interest rate	1.0 – 2.7 %	0.6 – 2.5 %	1.6 – 3.5 %
Weighted average expected lives (in years)	4.8 – 5.8	4.7 – 5.6	4.4 – 5.5
Forfeiture rate	5.4 – 7.7 %	1.4 – 8.0 %	1.4 – 7.1 %
Dividend yield	0.0 – 1.0 %	0.0 %	0.0 %

Expected Price Volatility — This is a measure of the amount by which a price has fluctuated or is expected to fluctuate. We use actual historical changes in the market value of the stock to calculate expected price volatility because we believe that this is the best indicator of future volatility. We calculate daily market value changes from the date of grant over a past period generally representative of the expected life of the options to determine volatility. An increase in the expected volatility will increase compensation expense.

Risk-Free Interest Rate — This is the U.S. Treasury Constant Maturity rate over a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Weighted Average Expected Lives — This is the period of time over which the options granted are expected to remain outstanding and is based on historical experience. Options granted generally have a maximum term of ten years. An increase in the expected life will increase compensation expense.

Forfeiture Rate — This is the estimated percentage of options granted that are expected to be forfeited or cancelled before becoming fully vested. This estimate is based on historical experience. An increase in the forfeiture rate will decrease compensation expense.

Dividend Yield — This is the estimated dividend yield for the weighted average expected life of the option granted. An increase in the dividend yield will decrease compensation expense.

Stock Options

We issue new shares for options when exercised. A summary of stock option activity is as follows:

Options	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
4,576,652	\$ 16.66		6.4	\$ 22,485

Outstanding December 29, 2007					
Granted	1,306,700	19.17	\$ 7.27		
Exercised	(226,638)	6.49			
Canceled	(548,700)	23.00			
Outstanding December 27, 2008					
Granted	5,108,014	\$ 17.07		6.2	\$ 19,296
Exercised	1,126,132	17.28	\$ 6.48		
Exercised	(755,348)	5.83			
Canceled	(177,954)	23.01			
Outstanding December 26, 2009					
Granted	5,300,844	\$ 18.53		6.4	\$ 47,413
Exercised	908,728	26.70	\$ 10.32		
Exercised	(1,550,077)	14.28			
Canceled	(144,638)	21.82			
Outstanding December 25, 2010					
Exercisable at December 25, 2010	4,514,857	\$ 21.52		6.7	\$ 121,350
Exercisable at December 25, 2010	2,631,276	\$ 21.18		5.5	\$ 71,618

The aggregate intrinsic values in the table above represents the total difference between our closing stock price at each year-end and the option exercise price, multiplied by the number of in-the-money options at each year-end. As of December 25, 2010, total unrecognized compensation expense related to non-vested stock options is \$9,156,000 with a weighted average expense recognition period of 1.4 years.

There were no material modifications to options in 2010, 2009 or 2008.

Other information relative to option activity during fiscal 2010, 2009 and 2008 is as follows (in thousands):

	2010	2009	2008
Total fair value of stock options vested	\$ 8,417	\$ 10,225	\$ 9,192
Total intrinsic value of stock options exercised	\$ 31,388	\$ 12,742	\$ 2,561

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Restricted Stock Units

We issue shares for restricted stock unit awards once vesting occurs and related restrictions lapse. The units vest over a one to three-year term. The status of restricted stock units is presented below:

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Restricted at December 29, 2007	127,738	\$ 23.36
Granted	179,916	19.17
Exercised	(2,020)	29.69
Forfeited	(28,228)	21.00
Restricted at December 27, 2008	277,406	\$ 20.83
Granted	308,102	17.50
Exercised	(10,896)	19.03
Forfeited	(15,828)	20.37
Restricted at December 26, 2009	558,784	\$ 19.04
Granted	148,862	27.37
Exercised	(119,184)	22.10
Forfeited	(38,284)	19.28
Restricted at December 25, 2010	550,178	\$ 20.61

Other information relative to restricted unit activity during fiscal 2010, 2009 and 2008 is as follows (in thousands):

	2010	2009	2008
Total grant date fair value of restricted units vested and exercised	\$ 2,634	\$ 207	\$ 60
Total intrinsic value of restricted units vested and exercised	\$ 3,329	\$ 180	\$ 40

For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the minimum statutory tax withholding requirements that we pay on behalf of our employees. We issued 90,203, 10,896, and 2,020 shares as a result of vested restricted stock units during fiscal 2010, 2009 and 2008, respectively. The 2010 amount is net of 28,981 shares, withheld to satisfy \$0.8 million of employees' tax obligations. Although shares withheld are not issued, they are treated similar to common stock repurchases as they reduce the number of shares that would have been issued upon vesting.

There were no material modifications to restricted stock units in 2010, 2009, or 2008.

As of December 25, 2010, total unrecognized compensation expense related to non-vested restricted stock units is \$4,705,000 with a weighted average expense recognition period of 1.7 years.

Employee Stock Purchase Plan

The ESPP provides our employees the opportunity to purchase, through payroll deductions, shares of common stock at a 15% discount. Pursuant to the terms of the ESPP, we issued 74,788, 101,470 and 122,696 shares of common stock during fiscal 2010, 2009 and 2008, respectively. The total cost related to the ESPP, including the compensation expense calculations, was approximately \$439,000, \$449,000 and \$485,000 in fiscal 2010, 2009 and 2008, respectively. In connection with the stock split, the number of shares of our common stock that are reserved under the ESPP increased from 4,000,000 shares to 8,000,000 shares. At December 25, 2010, there were 6,299,852 shares of common stock reserved for future issuance under the ESPP.

There were no significant modifications to the Company's share-based compensation plans during fiscal 2010.

Note 3 - Credit Agreement:

We are party to a Senior Credit Facility with Bank of America, N.A., as agent for a lender group (the "Credit Agreement"), which provides for borrowings up to \$350 million (with sublimits of \$75 million and \$20 million for letters of credit and swingline loans, respectively). The Credit Agreement has an Increase Option for \$150 million (subject to additional lender group commitments). The Credit Agreement is unsecured and matures in February 2012, with proceeds expected to be used for working capital, capital expenditures and share repurchases.

At December 25, 2010 and December 26, 2009, there were no outstanding borrowings under the Credit Agreement. There were \$27.4 million and \$35.2 million outstanding letters of credit as of December 25, 2010 and December 26, 2009, respectively. Borrowings bear interest at either the bank's base rate (3.25% at December 25, 2010) or the London Inter-Bank Offer Rate (0.26% at December 25, 2010) plus an additional amount ranging from 0.35% to 0.90% per annum, adjusted quarterly based on our performance (0.40% at December 25, 2010). We are also required to pay, quarterly in arrears, a commitment fee ranging from 0.06% to 0.18% per annum and adjusted quarterly based on our performance, for unused capacity (0.075% at December 25, 2010). There are no compensating balance requirements associated with the Credit Agreement.

The Credit Agreement requires quarterly compliance with respect to two material covenants: a fixed charge coverage ratio and a leverage ratio. The fixed charge coverage ratio principally compares consolidated EBITDAR to the sum of interest paid and rental expense (excluding straight-line rent). The leverage ratio principally compares total debt plus rental expense (excluding straight-line rent) multiplied by a factor of six to consolidated EBITDAR. The Credit Agreement also contains certain other restrictions regarding additional indebtedness, capital expenditures, business operations, guarantees, investments, mergers, consolidations and sales of assets, transactions with subsidiaries or affiliates, and liens. We were in compliance with all covenants at December 25, 2010.

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Note 4 - Leases:

We lease the majority of our office space and retail store locations, certain distribution centers, transportation equipment and other equipment under various noncancellable operating leases. The leases have varying terms and expire at various dates through 2029 and 2025 for capital leases and operating leases, respectively. Store leases typically have initial terms of between 10 and 15 years, with two to four optional renewal periods of five years each. Some leases require the payment of contingent rent that is based upon store sales above agreed-upon sales levels for the year. The sales levels vary for each store and are established in the lease agreements. Generally, most of the leases also require that we pay associated taxes, insurance and maintenance costs.

Total rent expense for fiscal 2010, 2009 and 2008 was approximately \$169.4 million, \$162.2 million and \$144.4 million, respectively. Total contingent rent expense for fiscal 2010, 2009 and 2008 was insignificant.

Future minimum payments, by year and in the aggregate, under leases with initial or remaining terms of one year or more consist of the following (in thousands):

	Capital Leases	Operating Leases
2011	\$ 206	\$ 174,846
2012	146	170,642
2013	146	164,498
2014	146	153,812
2015	146	143,470
Thereafter	1,926	737,760
Total minimum lease payments	2,716	\$ 1,545,028
Amount representing interest	(1,309)	
Present value of minimum lease payments	1,407	
Less: current portion	(91)	
Long-term capital lease obligations	\$ 1,316	

Assets under capital leases were as follows (in thousands):

	2010	2009
Building and improvements		