

A decade of
strong performance...



2009 Annual Report



...on a road of
endless opportunity.



Passionate about a Lifestyle

Our customers are dedicated to the rural lifestyle and most importantly they enjoy living "Out Here." We share in their passion by providing them with the products that support their everyday needs.



Our Focus

Our focus is 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 are very proud to serve the ten percent of our customers describing themselves as earning more than 75% of their income from production farming. Additionally, Tractor Supply customers are home, land, and pet owners that are likely to have above-average income with below-average costs of living.

Our Stores

Our stores are located in towns outlying major metropolitan markets and in rural communities. Our store format has an average store size of 16,600 square feet of inside and 18,000 square feet of outside selling space.

Our Merchandise

As we are serving a very specific niche, we offer a wide, yet very select, assortment of products that our customers use to support their lifestyles:

- Equine, pet and small animal products, including items necessary for their health, care, growth and containment;
- Hardware and seasonal products, including lawn and garden power equipment;
- Truck, towing and tool products;
- Work/recreational clothing and footwear for the entire family;
- Maintenance products for agricultural and rural use; and
- Home décor, candy, snack food and toys.



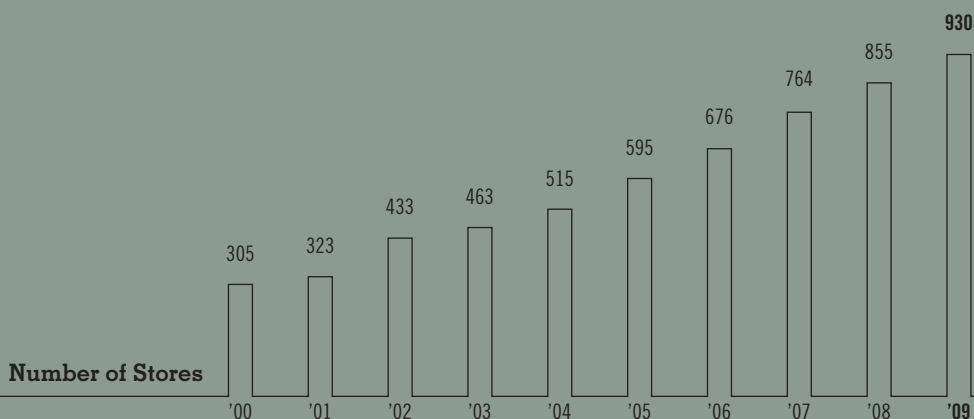
About Tractor Supply Company

Tractor Supply Company is the largest operator of retail farm and ranch stores in the United States. At December 26, 2009, Tractor Supply Company operated 930 stores in 44 states and an e-commerce website at TractorSupply.com. We are a growth company, and research indicates we have an opportunity to grow to 1,800 domestic Tractor Supply Company store locations.



Financial Highlights

(\$ in millions, except per share and store count data)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sales	759.0	849.8	1,210.0	1,472.9	1,738.8	2,068.0	2,369.6	2,703.2	3,007.9	3,206.9
Income Before Taxes	26.7	36.0	59.8	92.2	100.1	134.8	145.3	155.0	133.4	183.0
Net Income	15.8	25.3	38.2	55.7	64.1	85.7	91.0	96.2	81.9	115.5
Net Income per Share (basic)	\$ 0.45	\$ 0.72	\$ 1.06	\$ 1.50	\$ 1.68	\$ 2.19	\$ 2.27	\$ 2.45	\$ 2.22	\$ 3.21
Net Income per Share (diluted)	\$ 0.45	\$ 0.70	\$ 0.97	\$ 1.38	\$ 1.57	\$ 2.09	\$ 2.22	\$ 2.40	\$ 2.19	\$ 3.15
Number of Stores	305	323	433	463	515	595	676	764	855	930



To Our Stakeholders:

It has been a decade like none other for Tractor Supply Company, the leading farm and ranch store chain in the U.S. As the one-stop destination for those who live the rural lifestyle, we have grown throughout the decade, navigated through the recession and are prepared for the road ahead.

Growing Throughout the Decade

At the end of 2000, we had 305 stores in 28 states with total distribution capacity of 800,000 square feet; sales for the year were nearly \$760 million with net income of \$16 million and our stock price was \$2.12¹ per share with a market capitalization of \$75 million.

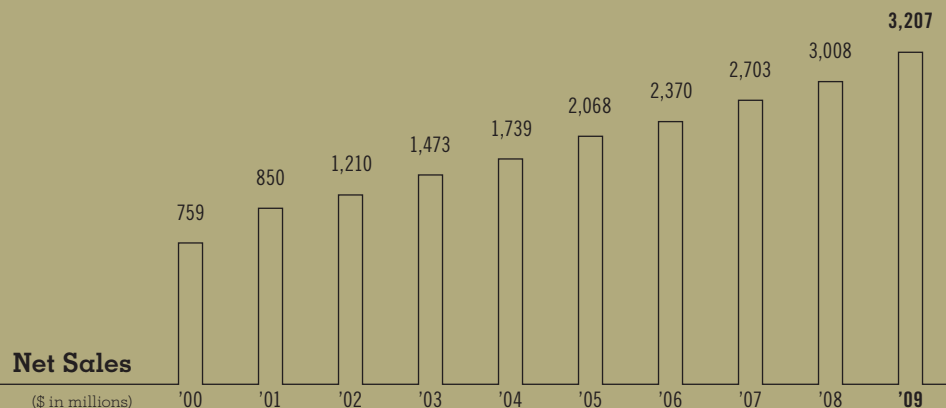
Over the past decade, we have made significant advances, executed our strategies and delivered outstanding results year after year. We brought together a new leadership team and board

members, and demonstrated that our experience and focus can help us further leverage our business model. We strengthened our position as the clear leader of the highly fragmented farm and ranch store chain industry. We expanded our understanding of the customer base and enhanced the merchandise assortment and marketing to meet their needs. Through a more formalized approach to recruiting, training and developing team members, we reduced store manager turnover and enhanced team members' knowledge and skills. We improved our systems with better inventory management, increased financial discipline and additional strategic distribution and allocation. We also improved in-store execution and launched a new e-commerce website. Our stock performance has outpaced both peers and the Standard & Poor's 500 Index.

Our results prove that we are a growth company. By the end of 2009, we had expanded the chain three times over to 930 stores in 44 states with total distribution capacity of 2.9 million square feet; sales more than quadrupled to \$3.2 billion; net income grew more than seven times to \$115 million; and our stock price was \$54.03 with a market capitalization of \$1.9 billion.

Most importantly, throughout this period of constant change we have remained true to Tractor Supply Company's mission—***to work hard, have fun and make money by providing legendary service and great products at everyday low prices.***

Over the past decade, we have made significant advances, executed our strategies and delivered outstanding results year after year.



¹Split adjusted

Navigating Through the Recession

Our mission became more relevant than ever.

During the past two years, we experienced volatile macroeconomic events—from housing and capital market lows to fuel cost highs to unusual inflation and deflation trends that affected the price of steel, grain and petroleum. While our customers are generally more fiscally conservative and less impacted by market conditions, the consumer became cautious and value-oriented while our team became even more responsive and has proven its ability to manage our business effectively in any environment.

From the store support center to distribution centers to stores, our team is fully aligned. Team members worked hard to achieve a terrific performance in a very difficult marketplace.

Our team stepped up to the challenge.

In 2009, we drove top- and bottom-line growth by focusing on two priorities: to continue differentiating our Company in the market and to execute our retail strategy to ensure that we would win in the difficult environment and beyond.

Our merchandise became more compelling.

We recognized that customers were shopping for everyday items that support their lifestyle and delaying big-ticket purchases. We intensified our focus on core consumable, usable and edible (C.U.E.) categories, such as animal and pet feed, repair and replacement parts and other fast-turning products, all supported by a strong value proposition. In October, we introduced select Purina and Nutrena brand equine and livestock feeds to stores nationwide. This was the first time in our history that we offered these nationally recognized feed brands, and this addition gave us the added credibility we desired and complemented our private premium brand offering.

Our marketing became more relevant.

In the second quarter of 2009, we eliminated television advertising spend and reinvested a portion of those dollars to enhance our direct marketing program. This decision was validated as same-store transaction count increased more than 5% for 2009. At the same time, our continued focus on creating a robust direct marketing and customer relationship management (CRM) program has allowed us to gain a broader understanding of their shopping preferences. All of these actions enabled us to more appropriately manage a key internal performance metric—gross margin net of advertising—and connect with customers more efficiently.

Our execution became crisper.

We reduced year-over-year inventory-per-store levels each quarter for the past two years, while improving in-stock levels on the products that are most important to customers. We maintained a very rigorous expense control program that we instituted in early 2008 as we began to anticipate the recession. We also increased the efficiency of our distribution network through initiatives such as improving dedicated fleet utilization and reducing stem miles. Most importantly, we improved the shopping experience, which we track through our customer loyalty scores.

Our financial foundation became even stronger.

We managed the Company's balance sheet very prudently, eliminated long-term debt, expanded our credit facility and funded working capital from substantial cash flow from operations. Since we initiated our share repurchase program in February 2007, we have returned nearly \$220 million to shareholders.

None of this would have been possible without our people.

From the store support center to distribution centers to stores, our team is fully aligned. Team members worked hard to achieve a terrific performance in a very difficult marketplace. Additionally, we are proud that we created 1,700 jobs through our store opening program since the beginning of 2008. We sincerely thank the 13,300 team members that helped us get here and appreciate their never-ending dedication to the business and the rural lifestyle.

Preparing for the Road Ahead

While we are proud of our performance through the recession and the last decade, we are “relentlessly dissatisfied.” We are extremely confident that we will build on positive momentum throughout 2010 and beyond. To ensure further success when the economy normalizes, we are taking the appropriate actions and making strategic investments.

To guide our actions in 2010, we will remain intensely focused on serving customers and managing the business proactively. First, we will continue serving customers with a unique mix of merchandise, elevating their shopping experience and refining our marketing program. Additionally, we will maintain the operational discipline we have instilled throughout the business, add technology enhancements to advance our distribution network and point-of-sale system and further improve inventory management.

While we will not waver in our commitment to growth, we are pleased to initiate a quarterly cash dividend program in 2010. In addition to our ongoing share repurchase program, we believe that this dividend program will enable us to continue returning value directly to shareholders.

In addition to our team members, we want to thank our loyal vendors, business partners and shareholders. There are many more great things to

come from Tractor Supply Company over the next decade as we continue growing to our long-term target of 1,800 stores.



Jim Wright
Chairman and Chief Executive Officer
March 2010



**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 26, 2009

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)

<u>Delaware</u> (State or other jurisdiction of incorporation or organization) <u>200 Powell Place, Brentwood, Tennessee</u> Address of principal executive offices	<u>13-3139732</u> (I.R.S. Employer Identification No.) <u>37027</u> Zip Code <u>(615) 440-4000</u>
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Registrant's telephone number, including area code

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

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

<u>Title of each class</u> Common Stock, \$.008 par value	<u>Name of each exchange on which registered</u> NASDAQ Global Select Market
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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.

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 definitions of "large accelerated filer," "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"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 26, 2009, the last business day of the registrant's most recently completed second fiscal quarter, was \$1,234,085,441. 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.

<u>Class</u> Common Stock, \$.008 par value	<u>Outstanding at January 23, 2010</u> 36,098,181
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Documents Incorporated by Reference:

Portions of the Registrant's definitive Proxy Statement for its 2010 Annual Meeting of Shareholders are incorporated by reference into Part III hereof.

**TRACTOR SUPPLY COMPANY
INDEX**

**Form 10-K
Report
Page**

Item no.

Forward-Looking Statements	ii
PART I	1
1. Business	1
1A. Risk Factors	6
1B. Unresolved Staff Comments	9
2. Properties	9
3. Legal Proceedings	10
4. Submission of Matters to a Vote of Security Holders	11
PART II	12
5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
6. Selected Financial Data	14
7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	16
7A. Quantitative and Qualitative Disclosures About Market Risk	31
8. Financial Statements and Supplementary Data	32
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	53
9A. Controls and Procedures	53
9B. Other Information	54
PART III	55
10. Directors, Executive Officers and Corporate Governance	55
11. Executive Compensation	55
12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	55
13. Certain Relationships and Related Transactions, and Director Independence	56
14. Principal Accountant Fees and Services	56
PART IV	56
15. Exhibits, Financial Statement Schedules	56

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 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 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 team members, product liability and other claims, potential legal 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.

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 and seasonal products, including lawn and garden power equipment;
- Truck, towing and tool products;
- Work/recreational clothing and footwear for the entire family;
- Maintenance products for agricultural and rural use; and
- Home décor, candy, snack food and toys.

Our Tractor Supply stores typically range in size from 15,500 square feet 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 existing buildings, one of several layout formats is utilized.

Our wholly-owned subsidiary, Del's Farm Supply, LLC ("Del's"), which operated 27 stores as of December 26, 2009 in Washington, Oregon, Idaho and Hawaii, offers a wide selection of products (primarily in the equine, pet and animal category) tailored to those who enjoy the rural lifestyle. 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 26, 2009, we operated 930 (inclusive of 27 Del's stores) 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 of each year 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 each year 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 many 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. This capability further enhances customer service and extends our market to areas where 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 by comparison of "good, better, best" 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.

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 2009.

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 by a number of vendors at our direction and specifically for our sole benefit. The trademarks in the private label brand names are owned by us. Our private label brands include:

- *Masterhand* and *JobSmart* (tools and tool chests)
- *Dumor* and *Producers Pride* (livestock feed)
- *4health* (pet foods)
- *Retriever* and *Paws 'n Claws* (pet foods)

- *Royal Wing* (bird feeding supplies)
- *Milepost* (equine products)
- *Groundwork* (lawn and garden supplies)
- *Huskee* (outdoor power equipment)
- *Countyline* (livestock, farm and ranch equipment)
- *Traveller* (truck/automotive products)
- *C.E. Schmidt* (apparel and footwear)
- *Bit & Bridle* (apparel)
- *Red Shed* (gifts and collectibles)

We believe that the availability of top quality private label products at great 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 2009, 2008 and 2007.

<u>Product Category</u>	<u>Percent of Sales</u>		
	<u>2009</u>	<u>2008</u> ^(a)	<u>2007</u> ^(a)
Livestock and Pet	39%	36%	33%
Hardware and Seasonal	23	24	26
Truck and Tool	18	19	20
Clothing and Footwear	10	10	10
Agriculture	6	7	7
Gift and Recreation	<u>4</u>	<u>4</u>	<u>4</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

^(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 850 vendors, with no one vendor representing more than 10% of our purchases during fiscal 2009. Approximately 250 vendors accounted for approximately 90% of our purchases during fiscal 2009. 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 substantially 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 replenishment and forecasting 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 97% 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 2009 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 2010, we are not planning any

additional distribution center square footage as we concentrate on increasing the utilization of our existing space.

We manage our inbound and outbound transportation activity in-house through the use of a web-based transportation management system. We outsource the operation of our dedicated fleet to two third-party logistics providers and utilize several common carriers as required for store deliveries. The third-party logistics providers are responsible for managing drivers and tractors contracted to us, and they deliver animal feed products directly to stores from our vendors. We control our transportation costs through the monitoring of transportation routes and scheduling of deliveries and backhauls while minimizing empty miles.

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.

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 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 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 26, 2009, we employed approximately 7,600 full-time and approximately 5,700 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 by location into eight regions. Each region is led by a regional manager and the region is further organized into districts, which are led by a district manager. Our regional and district managers, store managers and other distribution and support personnel have contributed significantly to our performance. We have an internal advisory board comprised of store managers. This group brings a grassroots perspective to operational initiatives and generates chain-wide endorsement of proposed "best-practice" solutions.

We are committed to a continuous improvement program called Tractor Value System ("TVS"). TVS is a commitment to provide, through team member engagement, a business management system that emphasizes continuous improvement by embracing change of current practices to reduce cost, shorten lead times, and drive innovation. We have implemented numerous TVS project teams (comprised of team members from all areas of our operations) to evaluate key operations and implement process changes that will both improve efficiency and strengthen controls. Our management encourages the

participation of all team members in decision-making, regularly solicits input and suggestions from our team members and responds to the suggestions.

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 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 continued rollout of a new point-of-sale system, an upgrade to our ERP system and a planned rollout of a new warehouse management system) in 2010. 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 last five years, with a compounded annual growth rate of approximately 13.0%. We project an increase of 70 to 80 new stores in 2010, an increase of approximately 8%. We opened 76 new stores in 2009 and 91 new stores in 2008, an increase of approximately 9% and 12%, respectively.

We operated 930 retail farm and ranch stores in 44 states as of December 26, 2009 and have plans to open 70 to 80 stores in fiscal 2010. We have developed a proven method for selecting store sites and have identified over 850 potential additional markets for new Tractor Supply stores (excluding Del’s) in the United States. The acquisition of Del’s enabled us to establish an initial presence in the Pacific Northwest, primarily in Washington, along with three stores in Hawaii. We have slowed the growth of Del’s as we refine the concept, and we do not plan to open any additional Del’s stores in fiscal 2010.

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, Corporate Governance and Nominating 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.

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. Additionally, significant inflationary pressures could have an adverse effect on our last-in, first-out (LIFO) inventory provision, which would negatively impact 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.

Our failure to effectively manage growth could impair our business.

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.

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, 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 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.

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. All of our vendors must comply with applicable laws, including labor and environmental laws, and otherwise be certified as meeting required vendor standards of conduct. 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 \$33,000,000 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.

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.

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 financial performance 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. 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 26, 2009, we operated 930 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:

<u>State</u>	<u>Number of Stores</u>	<u>State</u>	<u>Number of Stores</u>
Texas	118	Missouri	13
Ohio	68	Nebraska	12
Michigan	62	Kansas	11
Tennessee	57	Iowa	10
Pennsylvania	55	Maryland	9
New York	50	New Jersey	9
Georgia	39	Minnesota	8
North Carolina	38	New Hampshire	7
Florida	36	North Dakota	7
Indiana	36	Connecticut	6
Kentucky	35	South Dakota	6
Virginia	32	Maine	5
Oklahoma	22	Vermont	5
Alabama	20	Massachusetts	4
Washington	20	Mississippi	4
California	19	Delaware	3
South Carolina	19	Hawaii	3
West Virginia	17	Oregon	3
Illinois	15	New Mexico	2
Arkansas	14	Idaho	1
Louisiana	14	Montana	1
Wisconsin	14	Rhode Island	1
			<u>930</u>

Item 3. Legal Proceedings

We are 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. 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. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of our stockholders during the fourth quarter of our fiscal year ended December 26, 2009.

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 29, 2010.

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:

<u>Name</u>	<u>Position</u>	<u>Age</u>
James F. Wright	Chairman of the Board and Chief Executive Officer	60
Gregory A. Sandfort	President and Chief Merchandising Officer	54
Stanley L. Ruta.....	Executive Vice President and Chief Operating Officer	58
Anthony F. Crudele.....	Executive Vice President-Chief Financial Officer and Treasurer	53
Kimberly D. Vella.....	Senior Vice President-Human Resources	43

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-Human Resources of the Company since January 2007, after having served as Vice President-Human Resources of the Company since October 2001.

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			
	2009		2008	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$37.97	\$28.67	\$43.25	\$28.01
Second Quarter	\$43.72	\$34.17	\$42.07	\$28.38
Third Quarter	\$48.99	\$39.68	\$47.50	\$26.70
Fourth Quarter	\$54.50	\$44.33	\$45.40	\$31.69

As of January 31, 2010, the approximate number of record holders of our common stock was 130 (excluding individual participants in nominee security position listings), and the estimated number of beneficial holders of our common stock was 30,000.

Issuer Purchases of Equity Securities

We have a share repurchase program which provides for the repurchase of up to \$400 million of our outstanding common stock through December 2011. Stock repurchase activity during fiscal 2009 is set forth in the table below:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs</u>
First Quarter	280,984	\$ 32.45	280,984	\$ 187,120,351
Second Quarter.....	20,639	35.97	20,639	186,378,522
Third Quarter	19,407	47.13	19,407	185,464,444
Fourth Quarter:				
9/27/09 – 10/24/09.....	5,804	47.38	5,804	185,189,616
10/25/09 – 11/21/09.....	87,700	45.91	87,700	181,166,127
11/22/09 – 12/26/09.....	<u>4,500</u>	47.43	<u>4,500</u>	180,952,848
	<u>98,004</u>	46.06	<u>98,004</u>	180,952,848
As of December 26, 2009	<u>419,034</u>	\$ 36.49	<u>419,034</u>	<u>\$ 180,952,848</u>

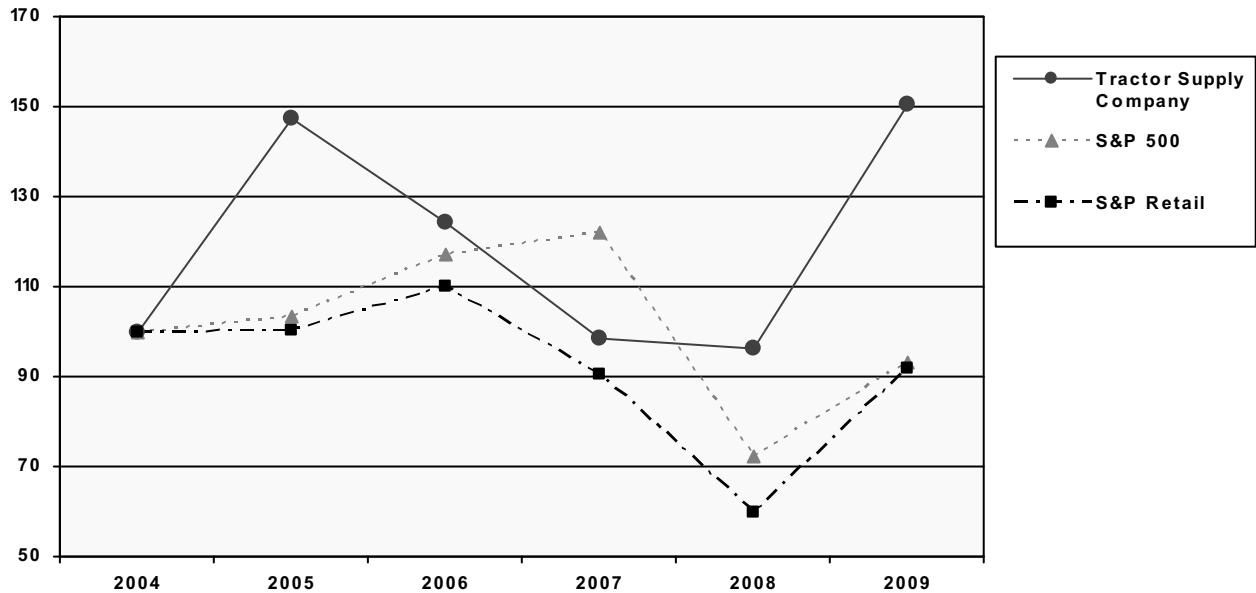
We expect to implement the balance of the repurchase program through purchases made from time to time either in the open market or through private transactions, in accordance with regulations of the SEC.

We have not declared any cash dividends during the two most recent fiscal years. Our Board of Directors authorized a share repurchase strategy, subject to a number of factors, including price, corporate and regulatory requirements, capital availability and other market conditions. Any future declaration of dividends or 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.

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 25, 2004 to December 26, 2009 (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 25, 2004 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.



	12/25/04	12/31/05	12/30/06	12/29/07	12/27/08	12/26/09
Tractor Supply Company	\$ 100.00	\$ 147.34	\$ 124.44	\$ 98.41	\$ 96.08	\$ 150.38
S&P 500	\$ 100.00	\$ 103.15	\$ 117.20	\$ 122.18	\$ 72.12	\$ 93.09
S&P Retail Index	\$ 100.00	\$ 100.44	\$ 109.84	\$ 90.24	\$ 59.71	\$ 91.88

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. Fiscal year 2005 consists of 53 weeks while all other fiscal years presented below consist of 52 weeks. The following table provides summary historical financial information for the periods ended and as of the dates indicated (in thousands, except per share and selected operating data):

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Results:					
Net sales.....	\$3,206,937	\$3,007,949	\$2,703,212	\$2,369,612	\$2,067,979
Gross margin.....	1,034,957	912,261	852,708	746,146	636,631
Selling, general and administrative expenses.....	784,066	715,961	641,603	555,834	466,167
Depreciation and amortization.....	<u>66,258</u>	<u>60,731</u>	<u>51,064</u>	<u>42,292</u>	<u>34,020</u>
Operating income.....	184,633	135,569	160,041	148,020	136,444
Interest expense, net.....	<u>1,644</u>	<u>2,133</u>	<u>5,037</u>	<u>2,688</u>	<u>1,632</u>
Income before income taxes ^(a)	182,989	133,436	155,004	145,332	134,812
Income tax provision.....	<u>67,523</u>	<u>51,506</u>	<u>58,763</u>	<u>54,324</u>	<u>49,143</u>
Net income ^(a)	<u>\$ 115,466</u>	<u>\$ 81,930</u>	<u>\$ 96,241</u>	<u>\$ 91,008</u>	<u>\$ 85,669</u>
Net income per share – basic ^(b)	<u>\$ 3.21</u>	<u>\$ 2.22</u>	<u>\$ 2.45</u>	<u>\$ 2.27</u>	<u>\$ 2.19</u>
Net income per share – assuming dilution ^(b)	<u>\$ 3.15</u>	<u>\$ 2.19</u>	<u>\$ 2.40</u>	<u>\$ 2.22</u>	<u>\$ 2.09</u>
Adjusted weighted average shares for dilutive earnings per share.....	<u>36,649</u>	<u>37,464</u>	<u>40,100</u>	<u>41,060</u>	<u>40,980</u>
Operating Data (percent of net sales):					
Gross margin.....	32.3%	30.3%	31.5%	31.5%	30.8%
Selling, general and administrative expenses.....	24.4%	23.8%	23.7%	23.5%	22.6%
Operating income.....	5.8%	4.5%	5.9%	6.2%	6.6%
Net income.....	3.6%	2.7%	3.6%	3.8%	4.1%
Number of Stores:					
Beginning of year.....	855	764	676	595	515
New stores opened.....	76	91	89	82	65
New stores acquired.....	--	--	--	--	16
Closed/sold stores.....	<u>(1)</u>	<u>--</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
End of year.....	<u>930</u>	<u>855</u>	<u>764</u>	<u>676</u>	<u>595</u>
Number of stores relocated during year.....	2	1	12	15	18
Number of stores remodeled ^(c)	6	3	1	3	--
Capital expenditures ^(d)	\$ 73,974	\$ 91,759	\$ 83,986	\$ 90,565	\$ 78,835
Same-store sales increase (decrease) ^(e)	(1.1%)	1.4%	3.4%	1.6%	5.7%
Average sales per store (000's) ^(f)	\$ 3,586	\$ 3,703	\$ 3,762	\$ 3,699	\$ 3,772
Average transaction value.....	\$ 42.06	\$ 44.55	\$ 43.60	\$ 43.12	\$ 42.03
Average number of daily transactions per store.....	236	230	239	238	245
Total team members.....	13,300	12,800	11,600	9,800	8,700
Balance Sheet Data (at end of period):					
Working capital.....	\$ 415,749	\$ 283,159	\$ 312,068	\$ 316,104	\$ 240,732
Total assets.....	1,230,845	1,075,997	1,057,971	998,258	803,176
Long-term debt, less current portion ^(g)	1,407	1,797	57,351	2,808	10,739
Stockholders' equity.....	733,203	610,130	565,337	598,904	477,698

- (a) In fiscal 2006, we adopted new accounting guidance for share-based compensation which lowered income before income taxes by \$12.1 million, \$12.3 million, \$10.6 million and \$9.7 million for 2009, 2008, 2007 and 2006, respectively. Net income was lowered by \$7.7 million, \$7.5 million, \$6.6 million and \$6.1 million for 2009, 2008, 2007 and 2006, respectively.
- (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 options and warrants.
- (c) Reflects remodelings costing more than \$150,000.
- (d) Includes assets acquired through capital leases.
- (e) Same-store sales increases (decreases) are calculated on an annual basis, including relocations in 2009 and 2008 and excluding relocations in 2007, 2006 and 2005, using all stores open at least one year.
- (f) Average sales per store is calculated based on the weighted average number of days open in the applicable period.
- (g) Long-term debt includes borrowings under the Company's revolving credit agreement and amounts outstanding under its capital lease obligations, excluding the current portion.

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 and seasonal products, including lawn and garden power equipment;
- Truck, towing and tool products;
- Work/recreational clothing and footwear for the entire family;
- Maintenance products for agricultural and rural use; and
- Home décor, candy, snack food and toys.

Our Tractor Supply stores typically range in size from 15,500 square feet 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 existing buildings, one of several layout formats is utilized.

Our wholly-owned subsidiary, Del's, which operated 27 stores as of December 26, 2009 in Washington, Oregon, Idaho and Hawaii, offers a wide selection of products (primarily in the equine, pet and animal category) tailored to those who enjoy the rural lifestyle. 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 last five years, with a compounded annual growth rate of approximately 13.0%. We project an increase of 70 to 80 new stores in 2010, an increase of approximately 8%. We opened 76 new stores in 2009 and 91 new stores in 2008, an increase of approximately 9% and 12%, respectively.

We operated 930 retail farm and ranch stores in 44 states as of December 26, 2009 and have plans to open 70 to 80 stores in fiscal 2010. We have developed a proven method for selecting store sites and have identified over 850 potential additional markets for new Tractor Supply stores (excluding Del's) in the United States. The acquisition of Del's enabled us to establish an initial presence in the Pacific Northwest, primarily in Washington, along with three stores in Hawaii. We have slowed the growth of Del's as we refine the concept, and we do not plan to open any additional Del's stores in fiscal 2010.

The average cash investment for new leased stores opened in 2009 was \$1.3 million for retrofit stores and \$1.0 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 \$102,000 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.

Seasonality and Weather

Our business is highly seasonal. Historically, our sales and profits have been the highest in the second and fourth fiscal quarters of each year 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 each year 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.

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. Additionally, significant inflationary pressures could have an adverse affect on our last-in, first-out (LIFO) inventory provision, which would negatively impact 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.

<u>Description</u>	<u>Judgments and Uncertainties</u>	<u>Effect if Actual Results Differ From Assumptions</u>
Revenue Recognition and Sales Returns: <p>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 and layaway programs), the revenue is deferred until the sale is complete. Revenues from the sale of gift cards are deferred and recognized when: (i) the gift card or merchandise return card is redeemed by the customer; (ii) the likelihood of the gift card being redeemed by the customer is remote (referred to as “breakage”); or (iii) the unredeemed merchandise returns cards expire (one year from issuance).</p>	<p>We estimate a liability for sales returns based on a one-year 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.</p> <p>The gift card breakage rate is based upon historical redemption patterns and a benefit is recognized for unredeemed gift cards in proportion to those historical redemption patterns.</p>	<p>We have not made any material changes in the accounting methodology used to recognize sales returns 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 sales returns or gift card breakage. However, if actual consumer return or gift card redemption patterns are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.</p> <p>A 50 basis point change in our sales return rate at December 26, 2009, would have affected net earnings by approximately \$170,000 in fiscal 2009.</p> <p>A 50 basis point change in our gift card breakage rate would have affected net earnings by approximately \$250,000 in fiscal 2009.</p>
Inventory Valuation: <u>Impairment Risk</u> <p>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.</p>	<p>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.</p> <p>Our impairment reserve contains uncertainties because the calculation requires management to make assumptions and to apply judgment regarding forecasted customer demand, and the promotional environment.</p>	<p>We have not made any material changes in the accounting methodology used to recognize impairment 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 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.</p> <p>A 10% change in our impairment reserve at December 26, 2009, would have affected net earnings by approximately \$545,000 in fiscal 2009.</p>

<u>Description</u>	<u>Judgments and Uncertainties</u>	<u>Effect if Actual Results Differ From Assumptions</u>
<p><u>Shrinkage</u></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 shrink rate is based on historical experience. We believe historical rates are a reasonably accurate reflection of future trends.</p> <p>Our shrinkage reserve contains uncertainties because the calculation requires management to make assumptions and to apply judgment regarding future shrinkage trends 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.</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 our shrinkage reserve. However, if our estimates regarding inventory losses are inaccurate, we may be exposed to losses or gains that could be material.</p> <p>A 10% change in our shrinkage reserve at December 26, 2009, would have affected net earnings by approximately \$835,000 in fiscal 2009.</p>
<p><u>Vendor Support</u></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 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.</p>	<p>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 significantly differ from previously estimated amounts.</p> <p>Our allocation methodology contains uncertainties because the calculation 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>We do not believe there is a significant collectibility risk related to vendor support amounts due us at the end of fiscal 2009.</p> <p>If a 10% reserve had been applied against our outstanding vendor support due as of December 26, 2009, net earnings would have been affected by approximately \$1.1 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 and higher cost of sales.</p>
<p><u>Freight</u></p> <p>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.</p>	<p>We allocate freight as a component of total cost of sales without regard to inventory mix or unique freight burden of certain categories. This assumption has been consistently applied for all years presented.</p>	<p>If a 10% increase or decrease had been applied against our current inventory capitalized freight balance, net earnings would have been affected by approximately \$2.9 million.</p>

<u>Description</u>	<u>Judgments and Uncertainties</u>	<u>Effect if Actual Results Differ From Assumptions</u>
<p>Share-Based Compensation:</p> <p>We have share-based compensation plans, which includes incentive and non-qualified stock options, restricted stock units, and an employee stock purchase plan. See Note 1, Significant Accounting Policies, and Note 2, Share-Based Compensation, 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 share-based compensation programs.</p> <p>We estimate the fair value of our stock option awards at the date of grant utilizing a Black-Scholes option pricing model. We estimate the fair value of our market-based restricted stock units at the date of grant utilizing average market price of our stock on the date of the related award.</p>	<p>Option-pricing models and generally accepted valuation techniques require management to make subjective assumptions and to apply judgment to determine the fair value of our awards. These assumptions and judgments include estimating the future volatility of our stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors. In addition to the key assumptions used to estimate the fair value, the estimated forfeiture rate of the awarded options is a critical assumption, as it reduces expense ratably over the vesting period. Changes in these assumptions can materially affect the fair value estimate.</p>	<p>While we update our assumptions annually, 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 determine share-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in share-based compensation expense that could be material. The reported share-based compensation expense may not be representative of the actual economic cost of the share-based compensation.</p> <p>A 10% change in our stock-based compensation expense for the year ended December 26, 2009, would have affected net earnings by approximately \$765,000.</p>
<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 assumptions and to apply judgment to estimate the ultimate cost to settle reported claims and claims incurred but not reported 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 associated with these claims, we may be exposed to losses that could be material.</p> <p>A 10% change in our self-insurance reserves at December 26, 2009, would have affected net earnings by approximately \$1.5 million in fiscal 2009.</p>

<u>Description</u>	<u>Judgments and Uncertainties</u>	<u>Effect if Actual Results Differ From Assumptions</u>
<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 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.</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 final completion of such audits, would not have a significant liability for disallowed exemptions.</p> <p>Tax Contingencies:</p> <p>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.</p> <p>We recognize a liability for certain tax benefits that do not meet the minimum requirements for recognition in the financial statements.</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 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.</p> <p>Our sales tax audit reserve contains uncertainties because management is required to make assumptions and to 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 taxing authorities.</p> <p>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.</p> <p>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.</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 26, 2009, would have affected net earnings by approximately \$330,000 in fiscal 2009.</p> <p>We do not believe there is a reasonable likelihood that there will be a material change in the reserves established for tax benefits not recognized.</p> <p>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.</p> <p>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.</p> <p>A 10% change in our unrecognized tax benefit reserve at December 26, 2009 would have affected net earnings by approximately \$290,000 in fiscal 2009.</p>

<u>Description</u>	<u>Judgments and Uncertainties</u>	<u>Effect if Actual Results Differ From Assumptions</u>
<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 and using an independent valuation firm, as appropriate. All goodwill at December 26, 2009 and December 27, 2008 is associated with the Del's business and for purposes of impairment testing, Del's is considered the reporting unit.</p> <p>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.</p> <p>In the fourth quarter of fiscal 2009, we completed our annual impairment testing of goodwill using the methodology described herein, and determined there was no impairment. We determined that the fair value of the Del's 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 Del's reporting unit was determined based on a weighting of income and market approaches. Under the income approach, the fair value of the Del's reporting unit is calculated as the present value of estimated future cash flows. Under the market approach, the fair value is based on observed market multiples for comparable businesses and guideline transactions.</p>	<p>We determine fair value using widely accepted valuation techniques, including discounted cash flow and market multiple analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies. Estimates include revenues, gross margins, operating costs and cash flows. We considered historical and estimated future results, economic and market conditions and the impact of planned business and operational strategies in deriving these estimates.</p>	<p>We have not made any material changes in our impairment loss assessment methodology in the financial periods presented.</p> <p>In developing the key judgments and assumptions used to assess impairment, we consider economic, operational and market conditions that could impact the fair value of the Del's reporting unit. These estimates and the judgments and 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 26, 2009, the fair value of the Del's reporting unit exceeded the carrying value of its net assets by approximately \$100,000. Thus, 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>

<u>Description</u>	<u>Judgments and Uncertainties</u>	<u>Effect if Actual Results Differ From Assumptions</u>
<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 indicate that the carrying value may not be recoverable.</p> <p>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.</p> <p>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.</p>	<p>Our impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows.</p>	<p>We have not made any material changes in our impairment loss assessment methodology 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 estimates or assumptions we use 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.</p>

Quarterly Financial Data

Our unaudited quarterly operating results for each fiscal quarter of 2009 and 2008 are shown below (dollars in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2009					
Net sales	\$ 650,171	\$ 946,504	\$ 747,730	\$ 862,532	\$ 3,206,937
Gross margin	201,036	302,198	246,038	285,685	1,034,957
Operating income	1,185	88,294	35,797	59,357	184,633
Net income	470	54,764	21,979	38,253	115,466
Net income per share: ⁽¹⁾					
Basic	\$ 0.01	\$ 1.53	\$ 0.61	\$ 1.06	\$ 3.21
Diluted	\$ 0.01	\$ 1.50	\$ 0.60	\$ 1.04	\$ 3.15
Same-store sales increase (decrease)	4.2%	(2.7%)	(5.1%)	0.7%	(1.1%)
2008					
Net sales	\$ 576,208	\$ 898,327	\$ 733,918	\$ 799,496	\$ 3,007,949
Gross margin	175,516	273,509	218,196	245,040	912,261
Operating income (loss)	(2,041)	71,158	26,077	40,375	135,569
Net income (loss)	(2,004)	43,352	15,870	24,712	81,930
Net income (loss) per share: ⁽¹⁾					
Basic	\$ (0.05)	\$ 1.17	\$ 0.44	\$ 0.68	\$ 2.22
Diluted	\$ (0.05)	\$ 1.15	\$ 0.43	\$ 0.67	\$ 2.19
Same-store sales increase (decrease)	(6.5%)	3.4%	6.2%	1.3%	1.4%

- (1) Due to the nature of interim earnings per share calculations, the sum of quarterly earnings per share amounts may not equal the reported earnings per share for the year.

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 26, 2009, December 27, 2008 and December 29, 2007 contain 52 weeks.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net sales.....	100.0%	100.0%	100.0%
Cost of merchandise sold ^(a)	<u>67.7</u>	<u>69.7</u>	<u>68.5</u>
Gross margin ^(a)	32.3	30.3	31.5
Selling, general and administrative expenses ^(a)	24.4	23.8	23.7
Depreciation and amortization	<u>2.1</u>	<u>2.0</u>	<u>1.9</u>
Operating income.....	5.8	4.5	5.9
Interest expense, net.....	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>
Income before income taxes	5.7	4.4	5.7
Income tax provision	<u>2.1</u>	<u>1.7</u>	<u>2.1</u>
Net income	<u>3.6%</u>	<u>2.7%</u>	<u>3.6%</u>

^(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 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.

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 13.4% to \$1,035.0 million compared to \$912.3 million in 2008. As a percent of sales, gross margin increased to 32.3% for fiscal 2009 compared to 30.3% for fiscal 2008. The increase in gross margin resulted primarily from a substantial decrease in the LIFO provision and lower transportation costs.

The LIFO charge decreased by \$35.9 million to \$6.9 million in fiscal 2009 compared to \$42.8 million in fiscal 2008. The decrease is due to an overall decline in the rate of inflation and cost reductions in certain product categories. Even as inflation moderates and inventory per store declines, we continue to generate a LIFO charge as we add merchandise that has higher inflation indices than the existing Company average.

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 38.6% 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 40.9% to \$115.5 million, or \$3.15 per diluted share, as compared to net income of \$81.9 million, or \$2.19 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.

Fiscal 2008 Compared to Fiscal 2007

Net sales increased 11.3% to \$3,007.9 million in fiscal 2008 from \$2,703.2 million in fiscal 2007. This increase resulted from the opening of new stores as well as a same-store sales improvement of 1.4%. The same-store average daily transaction count increased 0.1%, while same-store transaction value increased 1.3% for fiscal 2008.

Same-store sales improvements of 1.4% compared to 3.4% in the prior year were strongest in core consumable categories including animal and pet-related products, clothing and footwear.

In fiscal 2008, we opened 91 new stores (compared to 89 new stores in fiscal 2007), relocated one store (compared to 12 in fiscal 2007) and closed no stores (compared to selling our only Del's store located in Canada in fiscal 2007).

Gross margin increased 7.0% to \$912.3 million compared to \$852.7 million in 2007. As a percent of sales, gross margin decreased to 30.3% for fiscal 2008 compared to 31.5% for fiscal 2007. The decrease in gross margin resulted primarily from a substantial increase in the LIFO provision. The LIFO provision increased by \$37.6 million to \$42.8 million in fiscal 2008 compared to \$5.2 million in fiscal 2007. The increase is due to significant inflation (increases in costs for certain commodities, petroleum-based products and steel), a shift in the product mix towards higher turning, higher inflationary items and clearance activity.

As a percent of sales, SG&A expenses increased 10 basis points to 23.8% in fiscal 2008 from 23.7% in fiscal 2007. This increase was due largely to occupancy and payroll expenses relating to new stores, which generally have higher costs in relation to sales volume than the chain average, offset by an aggressive expense management program. Depreciation and amortization expense increased 18.9% in fiscal 2008 over fiscal 2007 due mainly to costs associated with new stores.

Net interest expense decreased 10 basis points as a percent of sales to \$2.1 million in fiscal 2008 from \$5.0 million in fiscal 2007. This decrease is directly related to a lower average debt balance primarily due to a reduction in stock repurchase activity in 2008, as compared to 2007.

Our effective tax rate increased to 38.6% for fiscal 2008 compared to 37.9% in fiscal 2007, resulting primarily from increases in state tax rates.

As a result of the foregoing factors, net income for fiscal 2008 decreased 14.9% to \$81.9 million, or \$2.19 per diluted share, as compared to net income of \$96.2 million, or \$2.40 per diluted share, in fiscal 2007.

During 2008, we repurchased approximately 1.6 million shares of stock for \$53.9 million as part of our previously announced \$400 million share repurchase program. In 2007, we repurchased approximately 3.2 million shares at a total cost of \$150.0 million.

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 extreme volatility in 2008 and 2009 amid negative developments in housing and mortgage-related activities, weakness of major financial institutions, governmental actions, and negative economic developments. These conditions have resulted in disruptions in credit and lending activities.

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 experienced no inability by our banks to meet borrowing requests. We have a diversified banking group which we believe should help mitigate any potential disruptions, if one occurs.

Working Capital

At December 26, 2009, we had working capital of \$415.7 million, a \$132.5 million increase from December 27, 2008. This increase was primarily attributable to changes in the following components of current assets and current liabilities (in millions):

	<u>2009</u>	<u>2008</u>	<u>Variance</u>
Current assets:			
Cash and cash equivalents	\$ 172.9	\$ 37.0	\$ 135.9
Inventories	601.2	603.4	(2.2)
Prepaid expenses and other current assets	42.3	41.9	0.4
Deferred income taxes	<u>17.9</u>	<u>1.7</u>	<u>16.2</u>
	<u>834.3</u>	<u>684.0</u>	<u>150.3</u>
Current liabilities:			
Accounts payable.....	\$ 273.2	\$ 286.8	\$ (13.6)
Accrued expenses	137.4	113.5	23.9
Income taxes payable.....	7.6	--	7.6
Current portion of capital lease obligation.....	<u>0.4</u>	<u>0.5</u>	<u>(0.1)</u>
	<u>418.6</u>	<u>400.8</u>	<u>17.8</u>
Working capital	<u>\$ 415.7</u>	<u>\$ 283.2</u>	<u>\$ 132.5</u>

In comparison to prior year end, working capital increased primarily as a result of an increase in cash. The increase in cash resulted principally from stronger earnings, a decrease in net repayments under the revolving credit agreement, reduced share repurchase activity, and a decline in average inventory per store and capital expenditure activity. This was partially offset by increased accrued expenses principally as a result of timing of payments and higher incentive compensation accruals over the prior year.

We have aggressively managed inventory and reduced our average inventory per store due to planned inventory management initiatives while improving our in stock levels. Accounts payable has also declined as a result of more timely payments on accounts payable 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.

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 26, 2009 and December 27, 2008, there were no outstanding borrowings under the Credit Agreement. There were \$35.2 million and \$25.1 million outstanding letters of credit as of December 26, 2009 and December 27, 2008, respectively. Borrowings bear interest at either the bank's base rate (3.25% at December 26, 2009) or the London

Inter-Bank Offer Rate (“LIBOR”) (0.23% at December 26, 2009) plus an additional amount ranging from 0.35% to 0.90% per annum, adjusted quarterly based on our performance (0.50% at December 26, 2009). 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 (0.10% at December 26, 2009). 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 26, 2009.

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 and repurchase of the Company’s common stock. The following table presents a summary of cash flows from operating, investing and financing activities for the last three fiscal years (in millions):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net cash provided by operating activities	\$ 215.3	\$ 217.7	\$ 154.8
Net cash used in investing activities	(73.8)	(88.4)	(82.6)
Net cash used in financing activities	(5.6)	(105.5)	(85.1)
Net increase (decrease) in cash and cash equivalents	<u>\$ 135.9</u>	<u>\$ 23.8</u>	<u>\$ (12.9)</u>

Operating Activities

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):

	<u>2009</u>	<u>2008</u>	<u>Variance</u>
Net income.....	\$ 115.5	\$ 81.9	\$ 33.6
Depreciation and amortization.....	66.3	60.7	5.6
Stock compensation expense	12.1	12.3	(0.2)
Deferred income taxes	(13.6)	1.6	(15.2)
Inventories and accounts payable	(11.4)	61.0	(72.4)
Accrued expenses	23.9	(2.1)	26.0
Income taxes currently payable	7.6	(5.9)	13.5
Other, net	14.9	8.2	6.7
Net cash provided by operations	<u>\$ 215.3</u>	<u>\$ 217.7</u>	<u>\$ (2.4)</u>

Cash flow from operating activities continues to provide the primary source of our liquidity. The decrease in net cash provided by operations in fiscal 2009 compared with fiscal 2008 was primarily due to changes in inventory levels and the timing of payments. Inventory levels decreased in 2009 compared to 2008 due to a continued focus on inventory management in 2009. Accounts payable levels have decreased at a greater rate as a result of more timely payments to capture payment discounts offered by vendors.

The \$62.9 million increase in net cash provided by operations in fiscal 2008 over fiscal 2007 is primarily due to changes in the following operating activities (in millions):

	<u>2008</u>	<u>2007</u>	<u>Variance</u>
Net income.....	\$ 81.9	\$ 96.2	\$ (14.3)
Depreciation and amortization.....	60.7	51.1	9.6
Stock compensation expense	12.3	10.6	1.7
Deferred income taxes	1.6	7.0	(5.4)
Inventories and accounts payable	61.0	(11.9)	72.9
Accrued expenses	(2.1)	4.3	(6.4)
Income taxes currently payable	(5.9)	(6.5)	0.6
Other, net	8.2	4.0	4.2
Net cash provided by operations	<u>\$ 217.7</u>	<u>\$ 154.8</u>	<u>\$ 62.9</u>

The improvement in net cash provided by operations in fiscal 2008 compared with fiscal 2007 was primarily due to changes in inventory levels and the timing of payments. Inventory levels decreased in 2008 compared to 2007, due to an increased focus on inventory management.

Investing Activities

Investing activities used \$73.8 million, \$88.4 million and \$82.6 million in fiscal 2009, 2008 and 2007, 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):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
New and relocated stores and stores not yet opened	\$ 31.7	\$ 39.8	\$ 38.1
Existing store properties acquired from lessor	--	8.5	6.8
Existing stores.....	18.4	10.0	18.3
Distribution center capacity and improvements.....	4.3	16.2	3.3
Information technology.....	17.6	17.2	17.4
Corporate and other	<u>2.0</u>	<u>0.1</u>	<u>0.1</u>
	<u>\$ 74.0</u>	<u>\$ 91.8</u>	<u>\$ 84.0</u>

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 \$90 million and \$100 million in fiscal 2010. While we plan to open approximately the same number of stores in 2010 compared to 2009, we expect to have additional capital expenditures next year including a comprehensive warehouse management system designed to improve throughput and efficiencies in the distribution center network and other efficiency-driving system enhancements in 2010.

Financing Activities

Financing activities used \$5.6 million, \$105.5 million, and \$85.1 million in fiscal 2009, 2008 and 2007, respectively. The cash used by financing activities in fiscal 2009 is mainly the result of share repurchase activity and borrowings and repayments under the Credit Agreement.

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. As of December 26, 2009, we had remaining authorization under the share repurchase program of \$181.0 million exclusive of any fees, commissions, or other expenses.

We repurchased approximately 0.4 million, 1.6 million and 3.2 million shares for a total cost of \$15.3 million, \$53.9 million and \$150.0 million in fiscal 2009, 2008 and 2007, respectively. Repurchased shares are accounted for at cost and will be held in treasury for future issuance.

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 26, 2009 (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	\$ 1,484,979	\$ 161,214	\$ 311,229	\$ 280,260	\$ 732,276
Capital leases ⁽¹⁾	3,242	526	352	292	2,072
Purchase obligations ⁽²⁾	2,683	2,683	--	--	--
	<u>\$ 1,490,904</u>	<u>\$ 164,423</u>	<u>\$ 311,581</u>	<u>\$ 280,552</u>	<u>\$ 734,348</u>

⁽¹⁾ Capital lease obligations include related interest.

⁽²⁾ The amounts for purchase obligations include commitments for construction of stores expected to be opened in fiscal 2010.

The Company had outstanding letters of credit of \$35.2 million as of December 26, 2009.

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 December 2007, the Financial Accounting Standards Board ("FASB") modified FASB Accounting Standards Codification ("ASC") 805, Business Combinations ("Topic 805"). Previous guidance applied only to business combinations in which control was obtained by transferring consideration; the revised guidance applies to all transactions or other events in which one entity obtains control over another. Topic 805 now defines the acquirer as the entity that obtains control over one or more other businesses and defines the acquisition date as the date the acquirer achieves control. It also requires the acquirer to recognize assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at their respective fair values as of the acquisition date. The revised guidance changes the treatment of acquisition-related costs, restructuring costs related to an acquisition that the acquirer expects but is not obligated to incur, contingent consideration associated with the purchase price and preacquisition contingencies associated with acquired assets and liabilities. Topic 805 retains the guidance for identifying and recognizing intangible assets apart from goodwill. The revised guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted this revised guidance effective December 28, 2008 (fiscal 2009). Thus we are required to apply the revised guidance to any business acquisition which occurs on or after December 28, 2008, but this modification had no effect on prior acquisitions.

In April 2008, the FASB modified FASB ASC 350, Intangibles – Goodwill and Other, and FASB ASC 275, Risks and Uncertainties, for factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset. The modification requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. We adopted the guidance for determining the useful life of a recognized intangible asset effective December 28, 2008 (fiscal 2009), and the guidance is applied prospectively to intangible assets acquired after the effective date. The guidance did not have an impact on our financial condition, results of operations or cash flow.

On April 9, 2009, the FASB modified FASB ASC 825, Financial Instruments, and FASB ASC 270, Interim Reporting, to extend the disclosure requirements related to the fair value of financial instruments to interim financial statements of publicly traded companies. We adopted this guidance effective June 27, 2009. This guidance did not have a significant impact on our financial condition, results of operations or cash flow.

In May 2009, the FASB modified FASB ASC 855, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued and requires entities to disclose the date through which they have evaluated subsequent events. We adopted this guidance effective June 27, 2009. The adoption of this guidance did not have an impact on our financial condition, results of operations or cash flows.

In June 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-01 Topic 105, Generally Accepted Accounting Principles, which establishes the FASB ASC. The FASB ASC is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (“GAAP”), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related accounting literature. The FASB ASC reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. We adopted ASU No. 2009-01 effective September 26, 2009. This impacted the Company’s notes to financial statements since all references to authoritative accounting literature are referenced in accordance with the FASB ASC.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are 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 26, 2009 and December 27, 2008) or LIBOR (0.23% and 0.46% at December 26, 2009 and December 27, 2008, respectively) plus an additional amount ranging from 0.35% to 0.90% per annum, adjusted quarterly, based on our performance (0.50% at both December 26, 2009 and December 27, 2008). 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 (0.10% at both December 26, 2009 and December 27, 2008). A hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would result in approximately \$111,000 of additional annual interest expense and would not impact the fair market value of the long-term debt.

Item 8. Financial Statements and Supplementary Data

INDEX

TRACTOR SUPPLY COMPANY

	<u>Page</u>
Reports of Independent Registered Public Accounting Firm.....	33
Consolidated Statements of Income for the years ended December 26, 2009, December 27, 2008 and December 29, 2007	35
Consolidated Balance Sheets as of December 26, 2009 and December 27, 2008.....	36
Consolidated Statements of Stockholders' Equity for the years ended December 26, 2009, December 27, 2008 and December 29, 2007	37
Consolidated Statements of Cash Flows for the years ended December 26, 2009, December 27, 2008 and December 29, 2007	38

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 26, 2009, 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 26, 2009, 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 26, 2009 and December 27, 2008 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 26, 2009 and our report dated February 24, 2010 expressed an unqualified opinion thereon.

Ernst & Young LLP

Nashville, Tennessee
February 24, 2010

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 26, 2009 and December 27, 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 26, 2009. 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 26, 2009 and December 27, 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 26, 2009, in conformity with U.S. generally accepted accounting principles.

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 26, 2009, 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 24, 2010 expressed an unqualified opinion thereon.

Ernst & Young LLP

Nashville, Tennessee
February 24, 2010

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

	Fiscal Year		
	2009	2008	2007
Net sales	\$ 3,206,937	\$ 3,007,949	\$ 2,703,212
Cost of merchandise sold.....	<u>2,171,980</u>	<u>2,095,688</u>	<u>1,850,504</u>
Gross margin	1,034,957	912,261	852,708
Selling, general and administrative expenses	784,066	715,961	641,603
Depreciation and amortization.....	<u>66,258</u>	<u>60,731</u>	<u>51,064</u>
Operating income	184,633	135,569	160,041
Interest expense, net	<u>1,644</u>	<u>2,133</u>	<u>5,037</u>
Income before income taxes	182,989	133,436	155,004
Income tax expense	<u>67,523</u>	<u>51,506</u>	<u>58,763</u>
Net income	<u>\$ 115,466</u>	<u>\$ 81,930</u>	<u>\$ 96,241</u>
Net income per share – basic	<u>\$ 3.21</u>	<u>\$ 2.22</u>	<u>\$ 2.45</u>
Net income per share – assuming dilution	<u>\$ 3.15</u>	<u>\$ 2.19</u>	<u>\$ 2.40</u>

The accompanying notes are an integral part of these financial statements.

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

	Dec. 26, 2009	Dec. 27, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 172,851	\$ 36,989
Inventories	601,249	603,435
Prepaid expenses and other current assets	42,320	41,902
Deferred income taxes	17,909	1,676
Total current assets	<u>834,329</u>	<u>684,002</u>
Property and Equipment:		
Land	27,646	25,410
Buildings and improvements	350,505	325,081
Furniture, fixtures and equipment	226,967	198,881
Computer software and hardware	88,700	74,589
Construction in progress	11,562	12,615
	<u>705,380</u>	<u>636,576</u>
Accumulated depreciation and amortization	(335,135)	(274,543)
Property and equipment, net	370,245	362,033
Goodwill	10,258	10,258
Deferred income taxes	11,091	13,727
Other assets	4,922	5,977
Total assets	<u>\$ 1,230,845</u>	<u>\$ 1,075,997</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 273,208	\$ 286,828
Other accrued expenses	137,375	113,465
Current portion of capital lease obligations	392	550
Income taxes payable	7,605	--
Total current liabilities	418,580	400,843
Revolving credit loan	--	--
Capital lease obligations, less current maturities	1,407	1,797
Straight-line rent liability	45,515	38,016
Other long-term liabilities	32,140	25,211
Total liabilities	<u>497,642</u>	<u>465,867</u>
Stockholders' equity:		
Preferred Stock, 40,000 shares authorized; \$1.00 par value; no shares issued	--	--
Common Stock, 100,000,000 shares authorized, \$.008 par value; 41,309,743 shares issued and 36,076,408 shares outstanding at December 26, 2009 and 40,875,886 shares issued and 36,061,585 shares outstanding at December 27, 2008	330	327
Additional paid-in capital	190,938	168,045
Treasury stock, at cost, 5,233,335 shares at December 26, 2009 and 4,814,301 shares at December 27, 2008	(219,204)	(203,915)
Retained earnings	761,139	645,673
Total stockholders' equity	<u>733,203</u>	<u>610,130</u>
Total liabilities and stockholders' equity	<u>\$ 1,230,845</u>	<u>\$ 1,075,997</u>

The accompanying notes are an integral part of these financial statements.

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

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
Stockholders' equity at December 30, 2006	\$ 322	\$ 129,249	\$ --	\$ 469,355	\$ (22)	\$ 598,904
Cumulative effect of change in accounting principle (Note 9)				(1,853)		(1,853)
Issuance of common stock under employee stock purchase plan (46,654 shares)	1	1,844				1,845
Exercise of stock options (371,823 shares).....	3	5,586				5,589
Stock compensation		10,620				10,620
Tax benefit of stock options exercised.....		4,018				4,018
Repurchase of common stock (3,216,187 shares)			(150,049)			(150,049)
Foreign currency translation adjustment.....					22	22
Net income				<u>96,241</u>		<u>96,241</u>
Stockholders' equity at December 29, 2007	326	151,317	(150,049)	563,743	--	565,337
Issuance of common stock under employee stock purchase plan (61,348 shares)		1,680				1,680
Exercise of stock options (114,329 shares).....	1	1,469				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)			(53,866)			(53,866)
Net income				<u>81,930</u>		<u>81,930</u>
Stockholders' equity at December 27, 2008	327	168,045	(203,915)	645,673	--	610,130
Issuance of common stock under employee stock purchase plan (50,735 shares)		1,631				1,631
Exercise of stock options (383,122 shares).....	3	4,345				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)...			(15,289)			(15,289)
Net income				<u>115,466</u>		<u>115,466</u>
Stockholders' equity at December 26, 2009	<u>\$ 330</u>	<u>\$ 190,938</u>	<u>\$(219,204)</u>	<u>\$ 761,139</u>	<u>\$ --</u>	<u>\$ 733,203</u>

The accompanying notes are an integral part of these financial statements.

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

	Fiscal Year		
	2009	2008	2007
Cash flows from operating activities:			
Net income	\$ 115,466	\$ 81,930	\$ 96,241
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	66,258	60,731	51,064
(Gain) loss on disposition of property and equipment	213	(425)	30
Stock compensation expense	12,130	12,257	10,620
Deferred income taxes	(13,597)	1,566	7,047
Change in assets and liabilities:			
Inventories	2,186	32,553	(41,137)
Prepaid expenses and other current assets	(409)	1,007	(4,802)
Accounts payable	(13,620)	28,482	29,175
Accrued expenses	23,910	(2,136)	4,339
Income taxes payable	7,605	(5,928)	(6,488)
Other	<u>15,175</u>	<u>7,689</u>	<u>8,687</u>
Net cash provided by operating activities	<u>215,317</u>	<u>217,726</u>	<u>154,776</u>
Cash flows from investing activities:			
Capital expenditures	(73,974)	(91,759)	(83,547)
Proceeds from sale of property and equipment	<u>97</u>	<u>3,324</u>	<u>974</u>
Net cash used in investing activities	<u>(73,877)</u>	<u>(88,435)</u>	<u>(82,573)</u>
Cash flows from financing activities:			
Borrowings under revolving credit agreement	274,033	853,903	1,050,931
Repayments under revolving credit agreement	(274,033)	(908,903)	(995,931)
Excess tax benefit of stock options exercised	4,280	1,085	3,149
Principal payments under capital lease obligations	(548)	(851)	(675)
Repurchase of common stock	(15,289)	(53,866)	(150,049)
Net proceeds from issuance of common stock	<u>5,979</u>	<u>3,150</u>	<u>7,434</u>
Net cash used in financing activities	<u>(5,578)</u>	<u>(105,482)</u>	<u>(85,141)</u>
Net increase (decrease) in cash	135,862	23,809	(12,938)
Cash and cash equivalents at beginning of year	<u>36,989</u>	<u>13,180</u>	<u>26,118</u>
Cash and cash equivalents at end of year	<u>\$ 172,851</u>	<u>\$ 36,989</u>	<u>\$ 13,180</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 838	\$ 3,890	\$ 3,953
Income taxes	66,888	55,476	54,939
Supplemental disclosure of non-cash activities:			
Equipment acquired through capital leases	\$ --	\$ --	\$ 439

The accompanying notes are an integral part of these financial statements.

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 27 stores as of December 26, 2009. At December 26, 2009, we operated a total of 930 retail farm and ranch stores (including Del’s) 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 26, 2009, December 27, 2008 and December 29, 2007 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.

Reclassifications

Certain amounts in previously issued financial statements have been reclassified to conform to the fiscal 2009 presentation. Amounts related to voucher receivables (\$0.2 million and \$0.5 million at December 27, 2008 and December 29, 2007, respectively) have been reclassified from cash and cash equivalents to prepaid expenses and other current assets. Also, amounts related to prepaid fixtures (\$0.3 million at December 27, 2008) previously classified in prepaid expenses and other current assets have been reclassified to other assets to reflect their long-term status. Those changes have affected our December 27, 2008 Consolidated Balance Sheet and the Consolidated Statements of Cash Flows for the fiscal years ended December 27, 2008 and December 29, 2007.

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 or receives services. 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 one-year 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 26, 2009 we had a liability of \$3.1 million reserved for sales returns, compared to \$3.2 million at December 27, 2008.

We recognize a benefit for gift cards when: (i) the gift card or merchandise return card is redeemed by the customer; (ii) the likelihood of the gift card being redeemed by the customer is remote (referred to as “breakage”); or (iii) the unredeemed merchandise returns cards expire (one year from issuance). The gift card breakage rate is based upon historical redemption patterns and a benefit is recognized for unredeemed gift cards in proportion to those historical redemption patterns. We recognized a benefit of \$1.1 million, \$1.4 million and \$1.2 million in fiscal 2009, 2008 and 2007, respectively.

Inventory Valuation

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 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 have the ability to reasonably estimate purchase volume and related vendor funding at interim periods, it is possible that actual year-end results could significantly differ 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 includes 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 stock option awards on 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 valuation models require the input of subjective assumptions including expected stock price volatility, 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 26, 2009, we had recorded net insurance reserves of \$23.7 million compared to \$22.6 million at December 27, 2008.

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.

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 \$7.5 million, \$8.7 million and \$9.4 million in 2009, 2008 and 2007, 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 of Financial Instruments

Our financial instruments consist of cash and cash equivalents, short-term receivables and payables and long-term debt instruments, including capital leases. The carrying values of cash and cash equivalents, receivables and trade payables equal current fair value. We had no borrowings under the Credit Agreement at December 26, 2009 or December 27, 2008.

Inventories

Inventories are stated using the lower of LIFO cost or market. Quarterly inventory determinations under LIFO are based on assumptions as to projected inventory levels at the end of the fiscal year, sales for the year and the expected rate of inflation/deflation for the year. If the FIFO method of accounting for inventory had been used, inventories would have been approximately \$75.2 million and \$68.3 million higher than reported at December 26, 2009 and December 27, 2008, respectively.

Vendor Concentration

Approximately 250 vendors accounted for 90% of our purchases for fiscal 2009, 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, excess inventory quantities and the LIFO inventory valuation.

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 2009, 2008 and 2007 were approximately \$59.0 million, \$52.8 million and \$49.9 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:

	<u>Life</u>
Buildings	30 – 35 years
Leasehold and building improvements	5 – 15 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 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.

During fiscal year 2009 impairment charges of \$0.8 million were recorded representing the amount required to write-down 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 years 2008 and 2007.

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 26, 2009 and December 27, 2008 is associated with the Del's business and, for purposes of impairment testing, Del's is considered the reporting unit.

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 2009, we completed our annual impairment testing of goodwill and determined there was no impairment. We determined that the fair value of the Del's 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 Del's reporting unit was determined based on a weighting of income and market approaches. Under the income approach, the fair value of the Del's reporting unit is calculated as the present value of estimated future cash flows. Under the market approach, the fair value is based on observed market multiples for comparable businesses and guideline transactions. Both of these approaches involve the use of significant estimates as to revenues, gross margin, operating costs and cash flows. We considered historical and estimated future results, economic and market conditions and the impact of planned business and operational strategies in deriving these estimates.

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 2009, 2008 and 2007 were approximately \$45.7 million, \$58.0 million and \$58.6 million,

respectively. Prepaid advertising costs were approximately \$0.2 million and \$0.4 million at December 26, 2009 and December 27, 2008, 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.

Foreign Currency Translation

Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in the foreign currency translation adjustment, a component of accumulated other comprehensive loss in stockholders' equity. The assets and liabilities of our store in British Columbia, which was sold in fiscal 2007, were translated into United States dollars at year-end rates of exchange, while revenues and expense items were translated at average rates for the period.

Note 2 - Share-Based Compensation:

We recognize share-based compensation expense based on the fair value of the awards. Share-based compensation includes stock option and restricted stock unit grants and certain transactions under our Employee Stock Purchase Plan (the "ESPP"). Share-based compensation expense is recognized based on grant date fair value and the discount on shares sold to employees, which represents the difference between the grant date fair value and the employee purchase price.

Share-based compensation expense including reductions in expense for modifications of awards lowered pre-tax income by \$12.1 million, \$12.3 million and \$10.6 million for fiscal 2009, 2008 and 2007, 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 3,100,000 shares are available for grant as stock options or other awards. At December 26, 2009, we had 3,082,060 shares available for future equity awards under the Company's 2009 Stock Incentive Plan.

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 2009, 2008 and 2007, as well as a summary of the methodology applied to develop each assumption, are as follows:

	Fiscal Year		
	2009	2008	2007
Expected price volatility.....	39.3 – 54.0%	37.6 – 39.7%	38.1 – 41.7%
Risk-free interest rate	0.6 – 2.5%	1.6 – 3.5%	4.1 – 5.0%
Weighted average expected lives (in years)	4.7 – 5.6	4.4 – 5.5	4.1 – 5.4
Forfeiture rate.....	1.4 – 8.0%	1.4 – 7.1%	1.4 – 8.0%
Dividend yield.....	0.0%	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 — We have not made any dividend payments. 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 Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding December 30, 2006....	2,391,361	\$ 29.32	6.5	\$ 45,301
Granted.....	579,666	46.78		
Exercised.....	(371,823)	15.03		
Canceled.....	<u>(310,878)</u>	<u>49.62</u>		
Outstanding December 29, 2007....	2,288,326	\$ 33.31	6.4	\$ 22,485
Granted.....	653,350	38.34		
Exercised.....	(113,319)	12.98		
Canceled.....	<u>(274,350)</u>	<u>45.99</u>		
Outstanding December 27, 2008....	2,554,007	\$ 34.14	6.2	\$ 19,296
Granted.....	563,066	34.56		
Exercised.....	(377,674)	11.66		
Canceled.....	<u>(88,977)</u>	<u>46.02</u>		
Outstanding December 26, 2009....	<u>2,650,422</u>	<u>\$ 37.05</u>	6.4	<u>\$ 47,413</u>
Exercisable at December 26, 2009..	<u>1,566,916</u>	<u>\$ 36.97</u>	5.1	<u>\$ 29,144</u>

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 26, 2009, total unrecognized compensation expense related to non-vested stock options is \$8,841,000 with a weighted average expense recognition period of 1.3 years.

The following summarizes information concerning stock option grants during fiscal 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Options granted with exercise price equal to market value:			
Weighted average exercise price	\$ 34.56	\$ 38.34	\$ 46.15
Weighted average fair value	\$ 12.96	\$ 14.54	\$ 19.39
Stock options granted	563,066	653,350	473,748

During fiscal 2007, certain options were modified to immediately vest and extend the related exercise period, effectively resulting in a cancellation of existing options and grant of new options (there were no material modifications in 2008 or 2009). The options retained the original exercise price and, as a result, the modified options had exercise prices both above and below the modification date fair market value. The following summarizes the activity related to these modifications:

	<u>2007</u>
Options granted with exercise price greater than market value:	
Weighted average exercise price	\$ 58.87
Weighted average fair value	\$ 0.93
Stock options granted	55,668
Options granted with exercise price less than market value:	
Weighted average exercise price	\$ 39.11
Weighted average fair value	\$ 2.16
Stock options granted	50,250

Other information relative to option activity during fiscal 2009, 2008 and 2007 is as follows (in thousands, except per share amounts):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Weighted average grant date fair value of stock options granted ..	\$ 12.96	\$ 14.54	\$ 16.15
Total fair value of stock options vested	\$ 10,225	\$ 9,192	\$ 10,748
Total intrinsic value of stock options exercised	\$ 12,742	\$ 2,561	\$ 12,075

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:

<u>Restricted Stock Units</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Restricted at December 30, 2006	2,480	\$ 64.45
Granted	68,889	46.01
Exercised	--	--
Forfeited.....	<u>(7,500)</u>	<u>46.17</u>
Restricted at December 29, 2007	63,869	46.71
Granted	89,958	38.33
Exercised	(1,010)	59.37
Forfeited.....	<u>(14,114)</u>	<u>42.00</u>
Restricted at December 27, 2008	138,703	41.66
Granted	154,051	34.99
Exercised	(5,448)	38.06
Forfeited.....	<u>(7,914)</u>	<u>40.73</u>
Restricted at December 26, 2009	<u>279,392</u>	<u>\$ 38.08</u>

As of December 26, 2009, total unrecognized compensation expense related to non-vested restricted stock units is \$4,973,000 with a weighted average expense recognition period of 1.8 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 50,735, 61,348 and 46,654 shares of common stock during fiscal 2009, 2008 and 2007, respectively. The total cost related to the ESPP, including the compensation expense calculations, was approximately \$449,000, \$485,000 and \$556,000 in fiscal 2009, 2008 and 2007, respectively. At December 26, 2009, there were 3,187,320 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 2009 (provided that, as noted above, the Company adopted its 2009 Stock Incentive Plan in replacement of its 2006 Stock Incentive Plan, effective May 7, 2009).

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 26, 2009 and December 27, 2008, there were no outstanding borrowings under the Credit Agreement. There were \$35.2 million and \$25.1 million outstanding letters of credit as of December 26, 2009 and December 27, 2008, respectively. Borrowings bear interest at either the bank's base rate (3.25% at December 26, 2009) or the London Inter-Bank Offer Rate (0.23% at December 26, 2009) plus an additional amount ranging from 0.35% to 0.90% per annum, adjusted quarterly based on our performance (0.50% at December 26, 2009). 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 (0.10% at December 26, 2009). 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 26, 2009.

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 2009, 2008 and 2007 was approximately \$162.2 million, \$144.4 million and \$124.2 million, respectively. Total contingent rent expense for fiscal 2009, 2008 and 2007 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):

	<u>Capital Leases</u>	<u>Operating Leases</u>
2010	\$ 526	\$ 161,214
2011	206	159,263
2012	146	151,966
2013	146	145,391
2014	146	134,869
Thereafter.....	<u>2,072</u>	<u>732,276</u>
Total minimum lease payments	3,242	<u>\$1,484,979</u>
Amount representing interest	<u>(1,443)</u>	
Present value of minimum lease payments	1,799	
Less: current portion	<u>(392)</u>	
Long-term capital lease obligations	<u>\$ 1,407</u>	

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

	<u>2009</u>	<u>2008</u>
Building and improvements	\$ 1,581	\$ 1,581
Computer software and hardware	3,022	3,553
Less: accumulated depreciation and amortization.....	<u>(3,198)</u>	<u>(3,068)</u>
	<u>\$ 1,405</u>	<u>\$ 2,066</u>

Note 5 - Capital Stock:

The authorized capital stock of the Company consists of common stock and preferred stock. The Company is authorized to issue 100,000,000 shares of common stock. The Company is also authorized to issue 40,000 shares of Preferred Stock, with such designations, rights and preferences as may be determined from time to time by the Board of Directors.

Note 6 - Treasury Stock:

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 0.4 million, 1.6 million and 3.2 million shares under the share repurchase program for a total cost of \$15.3 million, \$53.9 million and \$150.0 million in fiscal 2009, 2008 and 2007, respectively. As of December 26, 2009, we had remaining authorization under the share repurchase program of \$181.0 million exclusive of any fees, commissions, or other expenses.

Note 7 - Comprehensive Income:

Comprehensive income for each fiscal year is as follows (in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net income	\$ 115,466	\$ 81,930	\$ 96,241
Foreign currency translation adjustment	--	--	22
Comprehensive income	<u>\$ 115,466</u>	<u>\$ 81,930</u>	<u>\$ 96,263</u>

Note 8 - Net Income Per Share:

Net income per share is calculated as follows (in thousands, except per share amounts):

	2009		
	<u>Net Income</u>	<u>Shares</u>	<u>Per Share Amount</u>
Basic net income per share:			
Net income.....	\$ 115,466	35,990	\$ 3.21
Dilutive stock options and restricted stock units outstanding	<u>--</u>	<u>659</u>	<u>(0.06)</u>
Diluted net income per share	<u>\$ 115,466</u>	<u>36,649</u>	<u>\$ 3.15</u>
	2008		
	<u>Net Income</u>	<u>Shares</u>	<u>Per Share Amount</u>
Basic net income per share:			
Net income.....	\$ 81,930	36,830	\$ 2.22
Dilutive stock options and restricted stock units outstanding	<u>--</u>	<u>634</u>	<u>(0.03)</u>
Diluted net income per share	<u>\$ 81,930</u>	<u>37,464</u>	<u>\$ 2.19</u>
	2007		
	<u>Net Income</u>	<u>Shares</u>	<u>Per Share Amount</u>
Basic net income per share:			
Net income.....	\$ 96,241	39,220	\$ 2.45
Dilutive stock options and restricted stock units outstanding	<u>--</u>	<u>880</u>	<u>(0.05)</u>
Diluted net income per share	<u>\$ 96,241</u>	<u>40,100</u>	<u>\$ 2.40</u>

Anti-dilutive stock options excluded from the above calculations totaled 1,652,937, 1,637,286 and 1,052,603 in 2009, 2008 and 2007 respectively.

Note 9 – Income Taxes:

The provision for income taxes consists of the following (in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current tax expense:			
Federal	\$ 71,640	\$ 46,489	\$ 49,395
State	<u>9,480</u>	<u>3,995</u>	<u>2,321</u>
Total current	<u>81,120</u>	<u>50,484</u>	<u>51,716</u>
Deferred tax expense (benefit):			
Federal	(10,926)	1,096	4,449
State	<u>(2,671)</u>	<u>(74)</u>	<u>2,598</u>
Total deferred.....	<u>(13,597)</u>	<u>1,022</u>	<u>7,047</u>
Total provision.....	<u>\$ 67,523</u>	<u>\$ 51,506</u>	<u>\$ 58,763</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax assets and liabilities are as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Current tax assets:		
Inventory valuation	\$ 8,462	\$ 8,153
Accrued employee benefit costs	14,955	7,466
Accrued sales taxes	3,280	139
Other	<u>4,651</u>	<u>4,671</u>
	<u>31,348</u>	<u>20,429</u>
Current tax liabilities:		
Inventory basis difference.....	(11,995)	(17,653)
Other	<u>(1,444)</u>	<u>(1,100)</u>
	<u>(13,439)</u>	<u>(18,753)</u>
Net current tax asset.....	<u>\$ 17,909</u>	<u>\$ 1,676</u>

	<u>2009</u>	<u>2008</u>
Non-current tax assets:		
Capital lease obligation basis difference	\$ 1,017	\$ 1,013
Rent expenses in excess of cash payments required	18,675	15,720
Deferred compensation	11,113	7,086
Other	<u>2,981</u>	<u>2,271</u>
	<u>33,786</u>	<u>26,090</u>
Non-current tax liabilities:		
Depreciation.....	(21,823)	(11,376)
Capital lease assets basis difference.....	(570)	(597)
Other	<u>(302)</u>	<u>(390)</u>
	<u>(22,695)</u>	<u>(12,363)</u>
Net non-current tax asset	<u>\$ 11,091</u>	<u>\$ 13,727</u>

We have evaluated the need for a valuation allowance for all or a portion of the deferred tax assets and we believe that all of the deferred tax assets will more likely than not be realized through future earnings.

A reconciliation of the provision for income taxes to the amounts computed at the federal statutory rate is as follows (in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Tax provision at statutory rate	\$ 64,047	\$ 46,702	\$ 54,252
Tax effect of:			
State income taxes, net of federal tax benefits	4,455	2,549	3,205
Permanent differences	<u>(979)</u>	<u>2,255</u>	<u>1,306</u>
	<u>\$ 67,523</u>	<u>\$ 51,506</u>	<u>\$ 58,763</u>

The Company and its affiliates file income tax returns in the U. S. and various state and local jurisdictions. With few exceptions, we are no longer subject to federal, state and local income tax examinations by tax authorities for years before 2004. Various states have completed an examination of our income tax returns for 2001 through 2007.

As a result of adopting new accounting guidance for accounting for uncertainty in income taxes, we recognized a \$1.9 million increase (net of applicable federal tax benefit) in the liability for unrecognized tax benefits, including interest, which was accounted for as a reduction to the December 30, 2006 balance of retained earnings. The total amount of unrecognized tax benefits that, if recognized, would decrease the effective tax rate, is \$2.9 million at December 26, 2009. In addition, we recognize current interest and penalties accrued related to these uncertain tax positions as interest expense, (a component of total operating expenses) and the amount is not material to the Consolidated Statements of Income. A reconciliation of the beginning and ending gross amount of unrecognized tax benefits (exclusive of interest and penalties) is as follows (in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 3,052	\$ 4,236	\$ 3,558
Additions based on tax positions related to the current year ...	1,295	762	812
Additions for tax positions of prior years.....	437	--	278
Reductions for tax positions of prior years.....	(688)	(520)	(377)
Reductions due to audit results.....	<u>(207)</u>	<u>(1,426)</u>	<u>(35)</u>
Balance at end of year	<u>\$ 3,889</u>	<u>\$ 3,052</u>	<u>\$ 4,236</u>

Note 10 - Retirement Benefit Plans:

We have a defined contribution benefit plan, the Tractor Supply Company 401(k) Retirement Savings Plan (the "Plan"), which provides retirement benefits for our employees. Employees become eligible on the first month following their fulfillment of the eligibility requirements. To be eligible, an employee must be at least 21 years of age, have completed 12 months of employment, and performed 1,000 hours of service in a year of service as defined by the Plan. We match (in cash) 100% of the employee's elective contributions up to 3% of the employee's eligible compensation plus 50% of the employee's elective contributions from 3% to 6% of the employee's eligible compensation. In no event shall the total Company match made on behalf of the employee exceed 4.5% of the employee's eligible compensation. All current contributions are immediately 100% vested. Company contributions to the Plan during fiscal 2009, 2008 and 2007, were approximately \$3.2 million, \$2.8 million and \$2.6 million, respectively.

We offer, through a deferred compensation program, the opportunity for certain qualifying employees to elect a deferral of up to 40% of their annual base salary and up to 100% of their annual incentive bonus under their respective incentive bonus programs. To be eligible for the salary deferral, each participant must contribute the maximum amount of salary to the Tractor Supply Company 401(k) Retirement Savings Plan subject to the Company's match. Under the deferred compensation program, the participants' salary deferral is matched by the Company, 100% on the first \$3,000 of base salary contributed and 50% on the next \$3,000 of base salary contributed limited to a maximum annual matching contribution of \$4,500. Each participant's account earns simple annual interest at the prime rate as in effect on January 1 each year. Each participant is fully vested in all amounts credited to their deferred compensation account. Payments under the program, which are made in cash and paid in ten annual installments or in a single lump sum payment at the election of the participant, are made within 30 days following the earlier of the participant's (i) death, (ii) retirement, plus six months if the participant is a key employee, (iii) total and permanent disability, (iv) separation from service, plus six months if the participant is a key employee, or (v) some other date designated by the participant at the time of the initial deferral. The Company's contributions, including accrued interest, were \$0.3 million, \$0.3 million and \$0.5 million for fiscal 2009, 2008 and 2007, respectively.

Note 11 – Commitments and Contingencies:

Construction and Real Estate Commitments

We had commitments for new store construction projects totaling approximately \$2.7 million at December 26, 2009.

Litigation

We are involved in various litigation matters arising in the ordinary course of business. Management expects these matters will be resolved without material adverse effect on our consolidated financial position or results of operations. 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.

Note 12 - Impact of Recently Issued Accounting Standards:

In December 2007, the FASB modified FASB ASC 805, Business Combinations ("Topic 805"). Previous guidance applied only to business combinations in which control was obtained by transferring consideration; the revised guidance applies to all transactions or other events in which one entity obtains control over another. Topic 805 now defines the acquirer as the entity that obtains control over one or more other businesses and defines the acquisition date as the date the acquirer achieves control. It also requires the acquirer to recognize assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at their respective fair values as of the acquisition date. The revised guidance changes the treatment of acquisition-related costs, restructuring costs related to an acquisition that the acquirer expects but is not obligated to incur, contingent consideration associated with the purchase price and preacquisition contingencies associated with acquired assets and liabilities. Topic 805 retains the guidance for identifying and recognizing intangible assets apart from goodwill. The revised guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted this revised guidance effective December 28, 2008 (fiscal 2009). Thus we are required to apply the revised guidance to any business acquisition which occurs on or after December 28, 2008, but this modification had no effect on prior acquisitions.

In April 2008, the FASB modified FASB ASC 350, Intangibles – Goodwill and Other, and FASB ASC 275, Risks and Uncertainties, for factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset. The modification requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. We adopted the guidance for determining the useful life of a recognized intangible asset effective December 28, 2008 (fiscal 2009), and the guidance is applied prospectively to intangible assets acquired after the effective date. The guidance did not have an impact on our financial condition, results of operations or cash flow.

On April 9, 2009, the FASB modified FASB ASC 825, Financial Instruments, and FASB ASC 270, Interim Reporting, to extend the disclosure requirements related to the fair value of financial instruments to interim financial statements of

publicly traded companies. We adopted this guidance effective June 27, 2009. This guidance did not have a significant impact on our financial condition, results of operations or cash flow.

In May 2009, the FASB modified FASB ASC 855, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued and requires entities to disclose the date through which they have evaluated subsequent events. We adopted this guidance effective June 27, 2009. The adoption of this guidance did not have an impact on our financial condition, results of operations or cash flows.

In June 2009, the FASB issued ASU No. 2009-01 Topic 105, Generally Accepted Accounting Principles which establishes the FASB ASC. The FASB ASC is the single source of authoritative nongovernmental U.S. GAAP, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related accounting literature. The FASB ASC reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. We adopted ASU No. 2009-01 effective September 26, 2009. This impacted the Company's notes to financial statements since all references to authoritative accounting literature are referenced in accordance with the FASB ASC.

Note 13 – Subsequent Events:

We evaluated all events or transactions that occurred after December 26, 2009 up through February 24, 2010, which represents the date these financial statements were filed with the Securities and Exchange Commission.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation required by the Securities Exchange Act of 1934, as amended (the "1934 Act"), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the 1934 Act) as of December 26, 2009. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the 1934 Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 26, 2009, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the 1934 Act. The 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 26, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on this assessment,

management believes that, as of December 26, 2009, the Company's internal control over financial reporting is effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm which also audited the Company's consolidated financial statements, has issued a report on the Company's internal control over financial reporting, which is included herein.

Change in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information set forth under the caption "Executive Officers of the Registrant" in Part I of this Form 10-K is incorporated herein by reference.

The information set forth under the captions "Corporate Governance – Code of Ethics," "Item 1: Election of Directors," "Board Meetings and Committees," and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for our Annual Meeting of Stockholders to be held on April 29, 2010 is incorporated herein by reference.

Item 11. Executive Compensation

The information set forth under the captions "Corporate Governance – Compensation Committee Interlock and Insider Participation," "Compensation of Directors," "Executive Compensation," "Compensation Committee Report," "Compensation Discussion and Analysis," "2009 Summary Compensation Table," "2009 Non-Qualified Deferred Compensation," "2009 Grants of Plan-Based Awards," "Outstanding Equity Awards At Fiscal 2009 Year-End," "2009 Option Exercises and Stock Vested," and "Potential Payments Upon Termination or Change in Control" in our Proxy Statement for our Annual Meeting of Stockholders to be held on April 29, 2010 is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in our Proxy Statement for our Annual Meeting of Stockholders to be held on April 29, 2010 is incorporated herein by reference.

Following is a summary of our equity compensation plans as of December 26, 2009, under which equity securities are authorized for issuance, aggregated as follows:

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights</u>	<u>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance</u>
<u>Equity compensation plans approved by security holders:</u>			
2009 Stock Incentive Plan	17,940	\$ 33.36	3,082,060
2006 Stock Incentive Plan ⁽¹⁾	1,743,915	32.78	--
2000 Stock Incentive Plan ⁽¹⁾	1,014,373	35.68	--
1994 Stock Option Plan ⁽¹⁾	153,586	27.70	--
Employee Stock Purchase Plan ⁽²⁾	--	--	3,187,320
<u>Equity compensation plans not approved by security holders:</u>			
	--	--	--
Total	<u>2,929,814</u>	<u>\$ 33.52</u>	<u>6,269,380</u>

⁽¹⁾ The 2006 Stock Incentive Plan was superseded in May 2009. The 2000 Stock Incentive Plan was superseded in May 2006. The 1994 Stock Option Plan expired in February 2004.

⁽²⁾ Represents shares available as of December 26, 2009.

The information set forth in Note 2 to the "Notes to Consolidated Financial Statements" contained in this Report provides further information with respect to the material features of each plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information set forth under the captions “Item 1 – Election of Directors”, “Corporate Governance” and “Related-Party Transactions” in our Proxy Statement for our Annual Meeting of Stockholders to be held on April 29, 2010 is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information set forth under the caption “Item 2 – Ratification of Reappointment of Independent Registered Public Accounting Firm” in our Proxy Statement for our Annual Meeting of Stockholders to be held on April 29, 2010, is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

See Consolidated Financial Statements under Item 8 on pages 32 through 53 of this Report.

(a) (2) Financial Statement Schedules

None

Financial statement schedules have been omitted because they are not applicable.

(a) (3) Exhibits

The exhibits listed in the Index to Exhibits, which appears on pages 58 through 61 of this Form 10-K, are incorporated herein by reference or filed as part of this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

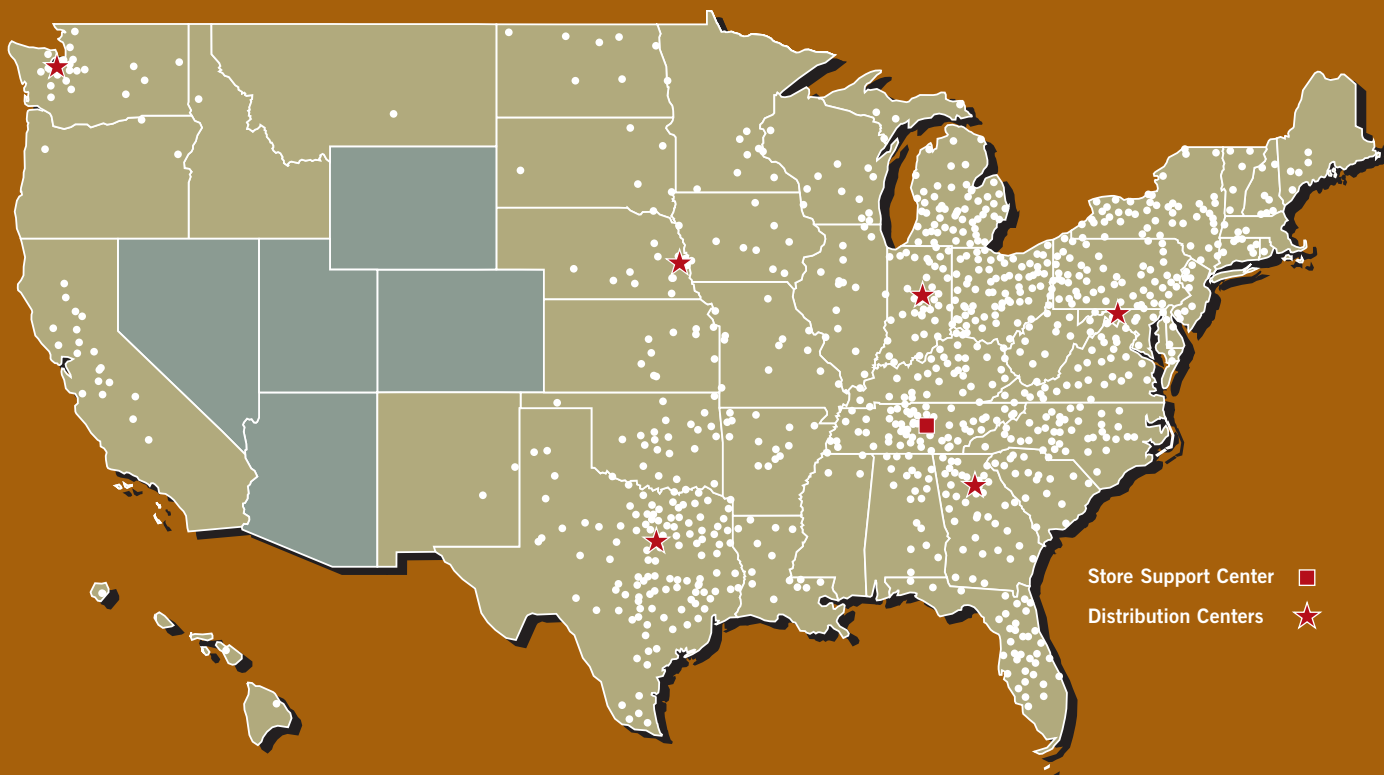
TRACTOR SUPPLY COMPANY

Date: February 24, 2010

By: /s/ Anthony F. Crudele
 Anthony F. Crudele
 Executive Vice President – Chief Financial
 Officer and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Anthony F. Crudele</u> Anthony F. Crudele	Executive Vice President – Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 24, 2010
<u>/s/ James F. Wright</u> James F. Wright	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2010
<u>/s/ John Adams</u> John Adams	Director	February 24, 2010
<u>/s/ William Bass</u> William Bass	Director	February 24, 2010
<u>/s/ Jack C. Bingleman</u> Jack C. Bingleman	Director	February 24, 2010
<u>/s/ S.P. Braud</u> S.P. Braud	Director	February 24, 2010
<u>/s/ Richard W. Frost</u> Richard W. Frost	Director	February 24, 2010
<u>/s/ Cynthia T. Jamison</u> Cynthia T. Jamison	Director	February 24, 2010
<u>/s/ Gerard E. Jones</u> Gerard E. Jones	Director	February 24, 2010
<u>/s/ George MacKenzie</u> George MacKenzie	Director	February 24, 2010
<u>/s/ Edna K. Morris</u> Edna K. Morris	Director	February 24, 2010



SHAREHOLDER INFORMATION

Corporate Address

Tractor Supply Company
200 Powell Place
Brentwood, TN 37027
(615) 440-4000

Internet Address

TractorSupply.com

Stock Exchange Listing

The NASDAQ Global
Select Market
Ticker Symbol: TSCO

Transfer Agent and Registrar

Computershare
Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940

Investor Relations

Anthony F. Crudele,
Chief Financial Officer

Randy Guiler,
Director, Investor Relations
(615) 440-4000

Cara O'Brien/Erica Pettit
FD
Financial and Corporate
PR Consultancy
(212) 850-5600

Independent Auditors

Ernst & Young LLP

Number of Stockholders

As of January 31, 2010,
there were approximately
130 stockholders of record.
This number excludes an
estimated 30,000 individual
stockholders holding stock
under nominee security
position listings.

Annual Meeting

April 29, 2010,
10:00 a.m. CDT
Tractor Supply Company
Store Support Center
200 Powell Place
Brentwood, TN 37027

BOARD OF DIRECTORS

James F. Wright

Chairman of the Board and
Chief Executive Officer
Tractor Supply Company

S.P. Braud, Lead Director ^(3*)

Vice President and Director
Braud Design/Build, Inc.
Retired Chief Financial
Officer
Service Merchandise
Company, Inc.

Johnston C. Adams ⁽²⁾⁽⁴⁾

Director WD-40 Company
Former Chairman and
Chief Executive Officer
AutoZone, Inc.

William Bass ⁽³⁾

President
Charming Shoppes Direct
Co-Founder and
Chief Executive Officer
Fair Indigo

Jack C. Bingleman ⁽¹⁾⁽⁴⁾

President
Indian River Asset
Management, Inc.
Former President
Staples International

Richard W. Frost ⁽²⁾

Chief Executive Officer
Louisiana-Pacific
Corporation

Cynthia T. Jamison ^{(1*)(2)}

Partner
Tatum CFO Partners, LLP

Gerard E. Jones, Esq. ^{(3)(4*)}

Retired Attorney
Adjunct Professor of Law
Vermont Law School

George MacKenzie ⁽¹⁾

Director
C&D Technologies Inc.,
Safeguard Scientifics Inc.,
American Water

Edna K. Morris ^{(2*)(3)}

Chief Executive Officer
Range Restaurant Group
Former President
Blue Coral Seafood & Spirits
Former President,
Red Lobster, a subsidiary of
Darden Restaurants, Inc.

1. Audit Committee
 2. Compensation Committee
 3. Corporate Governance Committee
 4. Nominating Committee
- *Committee Chairperson

EXECUTIVE OFFICERS

James F. Wright

Chairman of the Board and
Chief Executive Officer

Gregory A. Sandfort

President and
Chief Merchandising Officer

Stanley L. Ruta

Executive Vice President
and Chief Operating Officer

Anthony F. Crudele

Executive Vice President,
Chief Financial Officer and
Treasurer

Kimberly D. Vella

Senior Vice President,
Human Resources



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