



2015 ANNUAL REPORT



WHATEVER IT TAKES
— For —
LIFE OUT HERE

A man wearing a brown cowboy hat, a light blue button-down shirt, and blue jeans is walking out of a dark wooden barn door. He is holding a long-handled shovel. The scene is lit with warm, golden light, suggesting late afternoon or early morning. The wooden door and frame are weathered and rustic.

Out Here...

It takes hard work
and a can-do attitude.

ON TRACK TO:

.....
**GROW TO OUR GOAL
OF 2,500 DOMESTIC
STORES**
.....

**IMPROVE CUSTOMER
ENGAGEMENT**
.....

**USE TECHNOLOGY TO
SUPPORT GROWTH**
.....



PRESERVING A LIFESTYLE

Tractor Supply is the largest rural lifestyle retail store chain in the United States. At December 26, 2015, the Company operated nearly 1,500 stores in 49 states and an e-commerce website at TractorSupply.com. We are a growth company, and we believe we have an opportunity to grow to 2,500 domestic Tractor Supply store locations.

OUR FOCUS

Tractor Supply is focused on being the most dependable supplier of basic maintenance products for the lifestyle needs of recreational farmers and ranchers. Tractor Supply customers are home, land, pet and animal owners that live a conservative and self-reliant lifestyle. They depend on us to have the products they need for life Out Here.

OUR MISSION

Our mission is to work hard, have fun and make money by providing legendary service and great products at everyday low prices.

This mission is supported by a **key set of values**—ethics, respect, balance, winning attitude, communication, development, teamwork, change, initiative and accountability—that are the foundation of our culture and the guiding principles of how we conduct business.

OUR STORES

Our stores are located in towns outlying major metropolitan markets and in rural communities. Our store format includes an average of 16,000 square feet inside as well as additional outside selling space. We expect to open 115–120 stores in 2016, and we believe we are well-positioned to reach our long-term target of 2,500 stores.

OUR MERCHANDISE

We offer a comprehensive, yet tailored, assortment of products:

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

Growing Our Business...

WITH A DELIBERATE STRATEGY AND DEDICATED TEAM MEMBERS

TO OUR STAKEHOLDERS:

Tractor Supply Company is a growth company with a clearly-defined long-term strategy and business model. We are the most dependable supplier of everyday basic products for the rural lifestyle consumer, and we are continuously investing in our people, technology and infrastructure to meet the unique and evolving needs of our customers. We strategically reinvest in the business to grow our store base, build our systems and enhance our supply chain infrastructure. Our business model also includes a disciplined capital allocation strategy to improve the business and return capital to shareholders. Through a measured and balanced approach, we endeavor to meet the needs of both our customers and our shareholders, today and for years to come.



MOTIVATED AND DEDICATED TEAM MEMBERS In 2015, our 23,000 team members were responsible for taking care of millions of customers. Doing whatever it takes means ensuring our customers have the right products and advice for their lifestyle needs. We believe in providing legendary customer service and invest heavily in training our team members on products and know-how. We also hire many of our customers—resulting in dedicated team members who understand the lifestyle and community they serve.



CUSTOMER ENGAGEMENT With our customers depending upon us to meet their unique needs, we understand the importance of building a personal relationship. We are investing in customer data and segmentation analytics and building our Neighbors Club loyalty program to better communicate with our customers about products and events most relevant to their *individual* needs. This puts us in a strong position for long-term growth, serving a market that is both unique and passionate.



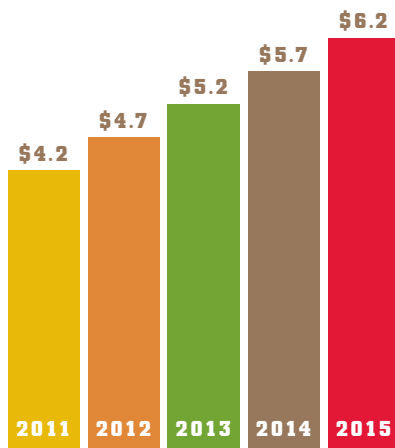
OMNI-CHANNEL IMPROVEMENTS Customers today want to shop on their terms. Through technology advancements, we will continue to build an omni-channel environment that connects our stores with our e-commerce and social media sites for one seamless shopping experience. Exceptional product content, timely expert advice and convenient fulfillment options will further support Tractor Supply's position as the authority for consumers living the Out Here lifestyle.



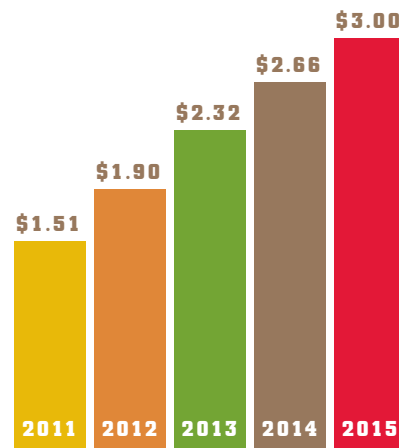
STATE OF THE ART LOGISTICS As we grow, we are continuously investing in tools, systems and infrastructure to manage inventory, shorten the supply chain and drive operating efficiencies. Additionally, we are investing in physical distribution facilities to increase speed and efficiency in delivering products to our stores and customers.



GROWING STORES AND PROFITS Tractor Supply stores offer a unique assortment of products that generally cannot be found in any other single location. Our stores are a one-stop shop for the rural lifestyle customer and are conveniently located in rural communities outside larger metropolitan areas. We have a current target of 2,500 domestic Tractor Supply Company locations, and we believe we have the strategic priorities in place to meet our goal of delivering sustainable growth and shareholder returns in the years ahead.



NET SALES
(\$ IN BILLIONS)



**NET INCOME PER
DILUTED SHARE**

2015 was a year of both successes and challenges for Tractor Supply Company. We opened 114 stores across the United States and grew our square footage by 8%. We increased our supply chain capacity with the addition of two mixing centers and a new distribution center in Casa Grande, Arizona. Nearly 1,600 team members joined the Tractor Supply team through new positions in our stores, our distribution centers and our Store Support Center. We increased sales 9% to a record of more than \$6.2 billion, increased diluted earnings per share 13% to \$3.00, and returned \$395.8 million to shareholders through our dividend and share repurchase programs.

We did face some challenges late in the year, which resulted in fourth quarter sales and net income growth below our expectations. The unprecedented warm weather throughout most of the country in the latter part of the fourth quarter resulted in weak demand for cold-weather products. While the geographic dispersion of our stores provides some insulation from isolated weather events, the record warm temperatures in November and December and the impact on cold-weather categories was simply too much to overcome. However, we were able to offset some of the weather challenges through strong sales of everyday basic items and disciplined inventory management and allocation practices.

Throughout the year, our dedicated team members delivered on our commitment to be the most dependable supplier of basic maintenance products for the rural lifestyle. Our customers responded by continuing to shop Tractor Supply for those basic needs, and we again experienced four quarters of year-over-year comparable store transaction count growth. Our team members in the stores, Store Support Center, Merchandise Innovation Center and distribution centers, once again, did an amazing job of focusing on our customers, executing the business model and delivering great products and legendary customer service.

As we have grown over the past 78 years, we have experienced many changes at Tractor Supply Company. One thing that has not changed is our passion for doing whatever it takes to take care of our customers. I believe we have one of the best teams in retail, and the number of customer comments and letters I personally receive are a testament to that passion. It makes me proud to be part of the Tractor Supply team. Thank you to all of our stakeholders for taking this journey with us. Together, we will work hard and do “whatever it takes” to serve our customers and grow our business profitably and responsibly.

Greg Sandfort
President and Chief Executive Officer

Out Here...

It takes the desire to live
life on your own terms.



OUR CUSTOMERS ARE SELF-RELIANT

At Tractor Supply Company, we know and understand our customers. We cater to the unique lifestyle needs of recreational farmers as well as those who enjoy the rural lifestyle. Our customers are self-reliant with unique needs. They are home, land, pet and animal owners and are likely to have a garden and light equipment necessary to maintain their land. Life Out Here involves growing your own food, taking care of pets and animals and making repairs to land and equipment. Out Here, customers don't call a service or repair company, they call a neighbor. And they rely on Tractor Supply team members to provide the products and seasoned advice they need to live life on their own terms.

Doing whatever it takes for our customers means understanding what they need. Many of our team members live the same Out Here lifestyle and bring product knowledge, know-how and advice based on personal experience to our stores every day. Hiring our customers as team members provides us with a valuable resource to ensure we are meeting the evolving needs of our consumers.

As our customers' preferences have evolved over the years, so have Tractor Supply stores. We have expanded merchandise assortments to include products such as grain-free pet and animal feed, non-GMO seeds and environmentally friendly pesticides. We have increased and localized our offerings in Livestock and Pet, Lawn and Garden and many other categories to include the products our customers need and expect. We talk to our customers every day and combine this with advanced customer data and analytics to merchandise our stores and continuously test new products.



WE KNOW OUR
CUSTOMERS





Out Here...

It takes passion for the lifestyle,
24 hours a day and 7 days a week.



WE ARE DEPENDABLE SUPPLIERS

Most of our customers work in an occupation other than farming and spend their nights and weekends tending to their property and animals. At Tractor Supply Company, we understand that our customers rely on us to be in stock with what they need without having to wait for products or wait for a sale. We have enhanced our online capabilities to give customers more flexibility to research and order products, and we have expanded pick-up and delivery options to make it more convenient for customers to obtain the products they need for life Out Here.

We stock our stores with weekly deliveries and the majority of our products are replenished through eight strategically located distribution centers across the country. This allows us to be flexible in flowing merchandise as seasons progress and as our customers' needs change. As our store base continues to grow, so does our supply chain infrastructure. In 2015, this included the opening of a new distribution center in Casa Grande, Arizona. We also opened two mixing centers in Texas which will improve inventory flow of high-volume, bulk items to our stores.

Inventory management is critical to our business, and we are investing in new planning and inventory allocation systems that should improve how we forecast, order and allocate inventory to our stores. As a growth company, it is imperative that we continue to invest in systems and infrastructure that will allow us to operate efficiently and continue meeting the changing needs of our customers.



8

STRATEGICALLY
LOCATED
DISTRIBUTION
CENTERS

Out Here...

It takes respect for our neighbors
and the precious world we share.



STEWARDSHIP

Our Stewardship Program is supported at the grassroots level by our volunteer Green Tractor Teams that work in various areas of the business to make Tractor Supply a more environmentally sustainable company. These teams have tested new recycling ideas and promoted sustainability with fairs and local store events. We are also making our facilities more sustainable. In 2015, we achieved our second LEED Silver designation with the opening of our new distribution center in Casa Grande, Arizona. And in 2016 and 2017, we will roll out our largest environmental sustainability project to date as we retrofit the entire store base with new LED lighting, which will result in reduced energy usage.



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, 2015

or

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

For the transition period from _____ to _____.

Commission file number 000-23314



TRACTOR SUPPLY COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

13-3139732

(I.R.S. Employer Identification No.)

5401 Virginia Way, Brentwood, Tennessee
(Address of Principal Executive Offices)

37027

(Zip Code)

Registrant's Telephone Number, Including Area Code:

(615) 440-4000

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

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

Name of each exchange on which registered
NASDAQ Global Select Market

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

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

YES ☒ NO ☐

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

YES ☐ NO ☒

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

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 (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.)

YES ☐ NO ☒

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing price of the Common Stock on The NASDAQ Global Select Market on June 26, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$9.9 billion. 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 affiliates of the registrant.

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

Class	Outstanding at January 23, 2016
Common Stock, \$.008 par value	133,740,424

Documents Incorporated by Reference:

Portions of the Registrant's definitive Proxy Statement for its 2016 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

Item no.

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FORWARD-LOOKING STATEMENTS OR INFORMATION

This Form 10-K and statements included or incorporated by reference in this Form 10-K include certain historical and forward-looking information. The forward-looking statements included are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the “Act”). All statements, other than statements of historical facts, which address activities, events or developments that we expect or anticipate will or may occur in the future, including such things as future capital expenditures (including their amount and nature), business strategy, expansion and growth of the business operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, we are identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written. These factors include, without limitation, general economic conditions affecting consumer spending, the timing and acceptance of new products in the stores, the timing and 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, failure of an acquisition to produce anticipated results, the ability to successfully manage expenses and execute our key gross margin enhancing initiatives, the availability of favorable credit sources, capital market conditions in general, the ability to open new stores in the manner and number currently contemplated, the impact of new stores on our business, competition, weather conditions, the seasonal nature of our business, effective merchandising initiatives and marketing emphasis, the ability to retain vendors, reliance on foreign suppliers, the ability to attract, train and retain qualified employees, product liability and other claims, changes in federal, state or local regulations, potential judgments, fines, legal fees and other costs, breach of information systems or theft of customer data, ongoing and potential future legal or regulatory proceedings, management of our information systems, failure to develop and implement new technologies, the failure of customer-facing technology systems, business disruption including from the implementation of new supply chain technologies, effective tax rate changes and results of examination by taxing authorities, the ability to maintain an effective system of internal control over financial reporting, changes in accounting standards, assumptions and estimates, 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 (the “Company” or “we”) is the largest operator of rural lifestyle retail stores in the United States. The Company is focused on supplying the needs of recreational farmers and ranchers and others who enjoy the rural lifestyle (which we refer to as the “*Out Here*” lifestyle), as well as tradesmen and small businesses. We operate retail stores under the names *Tractor Supply Company*, *Del’s Feed & Farm Supply* and *HomeTown Pet* and operate a website under the name *TractorSupply.com*. Our stores are located primarily in towns outlying major metropolitan markets and in rural communities.

Tractor Supply Company has one reportable industry segment which is the retail sale of products that support the rural lifestyle. At December 26, 2015, we operated 1,488 retail stores in 49 states. Our Tractor Supply stores typically range in size from 15,000 to 20,000 square feet of inside selling space along with additional outside selling space. We use a standard design for most new built-to-suit locations that includes approximately 15,500 square feet of inside selling space.

Business Strategy

We believe our sales and earnings growth are the 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 others who enjoy the rural lifestyle, as well as tradesmen and small businesses. By focusing our product assortment on these core customers, we believe we are differentiated from general merchandise, home center and other specialty retailers. We cater to the rural lifestyle and often serve a market by being a trip consolidator for many basic maintenance needs for farm, ranch and rural customers.

Customers

Our target customers are home, land, pet and livestock owners who generally have above average income and below average cost of living. We seek to serve a customer base that primarily lives in towns outlying major metropolitan markets and in rural communities. This customer base includes recreational farmers and ranchers and others who enjoy the rural lifestyle, as well as tradesmen and small businesses.

Customer Service

We are committed to providing our customers reliable product availability and 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 our customers find the right products to satisfy their everyday needs in addition to the specialty items needed to complete their rural lifestyle projects. We also engage with our customers through an e-commerce website (*TractorSupply.com*), which provides the opportunity to allow customers to shop at a time and place that fits their schedule while delivering enhanced product information, research and decision tools that support product selection and informational needs in specific subject areas. Additionally, we maintain a customer solutions center at our Store Support Center located in Brentwood, Tennessee to support our in-store and online customers as well as our store team members. We believe this commitment to customer service promotes strong customer loyalty and repeat shopping.

We use a third party provider to measure our level of customer service. This process allows customers to provide feedback on their shopping experience. Based on the third party provider’s data, we believe our customer satisfaction scores to be among the best-in-class. We carefully evaluate the feedback we receive from our customers and implement improvements at the individual store level based on that feedback.

Store Personnel and Training

We seek to hire store team members with farming and ranching backgrounds, with particular emphasis on general maintenance, equine and welding. 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:

- a thorough on-boarding process to prepare new team members for their new role;
- new store opening training that prepares new store managers to open stores to Company standards;
- a management training program which covers all aspects of our store operations, delivering superior service and managing the team member experience;
- structured training on customer service and selling skills;
- online product knowledge training produced in conjunction with key vendors;
- leadership development programs that prepare leaders to expand their current contributions; and
- an annual store manager meeting with vendor product presentations.

Store Environment

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

Merchandising and Purchasing

We offer an extensive assortment of products for those seeking to enjoy the *Out Here* lifestyle, as well as tradesmen and small businesses. Our broad product assortment and physical store size are tailored to meet the needs of our customers in various geographic markets. Our full line of product offerings includes a broad selection of high quality, reputable brand name and exclusive brand products and is supported by a strong in-stock inventory position with an average of 16,000 to 20,000 products per store. No one product accounted for more than 10% of our sales during 2015. We offer the following comprehensive selection of merchandise:

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

The following chart indicates the percentage of sales represented by each of our major product categories during fiscal 2015, 2014 and 2013:

Product Category:	Percent of Sales		
	2015	2014	2013
Livestock and Pet	44%	44%	43%
Hardware, Tools, Truck and Towing	23	22	23
Seasonal, Gift and Toy Products	20	20	20
Clothing and Footwear	8	9	9
Agriculture	5	5	5
Total	100%	100%	100%

Our buying team continuously reviews and updates our product assortment to respond to customer needs and to offer new, relevant products. We are focused on providing key products that our customers use on a regular basis for their lifestyle and maintenance needs with emphasis on consumable, usable, edible (“C.U.E.”) products. Examples of C.U.E product categories include, but are not limited to, livestock feed and bedding, pet food, lubricants, and various seasonal products, such as heating, pest control and twine.

Our products are sourced through both domestic and international vendors. Our business is not dependent upon any one vendor or particular group of vendors. We purchase our products from a group of approximately 800 vendors, with no one vendor representing more than 10% of our purchases during fiscal 2015. Approximately 300 core vendors accounted for 90% of our purchases during fiscal 2015. We have not experienced any significant difficulty in obtaining satisfactory alternative sources of supply for our products, and we believe that adequate sources of supply exist at substantially similar costs for nearly all of our products. We have no material long-term contractual commitments with any of our product vendors.

Our buying teams focus on merchandise procurement, vendor line reviews and testing of new products and programs. We also employ a dedicated inventory management team that focuses exclusively on all forecasting and replenishment functions, and a committed merchandise planning team that concentrates on assortment planning. Through the combined efforts of these teams, we continue to focus on improving our overall inventory productivity and in-stock position.

Intellectual Property

Our subsidiary, Tractor Supply Co. of Texas, LP (“TSCT”), owns registrations with the United States Patent and Trademark Office (“USPTO”) for various service marks including *TSC*[®], *Tractor Supply Co.*[®], *TSC Tractor Supply Co.*[®] and the trapezium design for retail store services. We consider these service marks, and the accompanying goodwill and name recognition, to be valuable assets of our business. TSCT also owns several other service marks for retail services, some of which have been registered with the USPTO and some of which are the subject of applications for registration pending before the USPTO.

In addition to selling products that bear nationally-known manufacturer brands, we also sell products manufactured for us under a number of exclusive brands that we consider to be important to our business. These exclusive brands are manufactured for us by a number of vendors and provide an alternative to the national brands, which helps provide value for our customers and positions us as a destination store.

Our exclusive brands represented approximately 31% of our total sales in fiscal 2015, 2014 and 2013. Our exclusive brands include:

- *4health*[®] (pet foods and supplies)
- *Bit & Bridle*[®] (apparel and footwear)
- *Blue Mountain*[®] (apparel)
- *C.E. Schmidt*[®] (apparel and footwear)
- *Countyline*[®] (livestock, farm and ranch equipment)
- *Dumor*[®] (livestock and horse feed and supplies)
- *Equistages*[®] (horse feed)
- *Groundwork*[®] (lawn and garden supplies)
- *Huskee*[®] (outdoor power equipment)
- *JobSmart*[®] (tools)
- *Paws & Claws*[®] (pet foods and supplies)
- *Producer’s Pride*[®] (livestock and horse feed and supplies)
- *Red Shed*[®] (gifts, collectibles, and outdoor furniture)
- *Redstone*[®] (heating products)
- *Retriever*[®] (pet foods and supplies)
- *Royal Wing*[®] (bird feed and supplies)
- *Traveller*[®] (truck and automotive products)
- *TSC Tractor Supply Co.*[®] (trailers, truck tool boxes and animal bedding)

The exclusive brands identified above have been registered as trademarks with the USPTO for certain products and are the subject of applications for registration pending before the USPTO for other products.

Our trademark and service mark registrations have various expiration dates; however, provided that we continue to use the marks and renew the registrations in a timely manner, the registrations are potentially perpetual in duration.

We believe our intellectual property, which includes the trademarks and service marks identified above, together with certain trade names, domain names, patents and copyrights, has significant value and is an important component of our merchandising and marketing strategies.

Distribution

We currently operate a distribution network for supplying stores with merchandise, and in fiscal 2015 our stores received approximately 70% of merchandise through this network while the remaining merchandise shipped directly to the stores from our vendors. We believe this flow facilitates the prompt and efficient distribution of merchandise to our stores in order to enhance in-stocks, minimize freight costs and improve the inventory turn rate. Our distribution facilities, located in Arizona, Georgia, Indiana, Kentucky, Maryland, Nebraska, Texas, and Washington represent total distribution capacity of 5.0 million square feet.

In 2015, we completed construction of a new distribution center in Casa Grande, Arizona, with a capacity of approximately 650,000 square feet. This facility, which began shipping merchandise to stores in December 2015, will support our western store expansion. Also in 2015, we completed construction of two smaller cross-dock facilities (“mixing centers”) in Texas to handle certain high-volume bulk products.

We continue to improve the technology in our distribution facilities, and currently eight of our ten facilities utilize a warehouse management system that provides for improved movement of inventory. We will continue to refine this system and expect that it will be implemented in additional locations.

We select the locations of our distribution facilities in an effort to minimize logistics costs and optimize the distance from distribution facilities to our stores. We manage our inbound and outbound transportation activity in-house through the use of a web-based transportation management system. We utilize several common carriers for store deliveries and manage our transportation costs through carrier negotiations, the monitoring of transportation routes, and the scheduling of deliveries.

Marketing

We utilize an “everyday value price” philosophy to consistently offer our products at competitive prices complemented by strategically planned promotions throughout the year. To drive store traffic and position ourselves as a destination store, we promote broad selections of merchandise with newspaper circulars, customer targeted direct mail and email and digital offerings. Vendors frequently support these specific programs by offering temporary cost reductions and honoring coupons. Our vendors also provide assistance with product presentation and fixture design, brochures, support for in-store events, and point-of-purchase materials for customer education and product knowledge for our team members.

Omni-Channel

We communicate with our customers across multiple touch points including our stores, e-commerce website (TractorSupply.com), email and direct mail. Our goal is to be available when and how our customers choose to engage with our brand. Connecting with consumers online provides the opportunity to allow customers to shop at a time and place that fits their schedule while delivering enhanced product information, research and decision tools that support product selection and informational needs in specific subject areas. We give our customers the ability to purchase products and have them shipped to one of our retail stores, their homes or offices. We believe this capability further enhances customer service and extends our market to areas where our retail stores are not currently located. We maintain a fulfillment center within our Franklin, Kentucky distribution center to support our e-commerce activities. Additionally in 2015, we continued to invest in our omni-channel platform and expanded capabilities related to fulfillment options, product information and site research. We also introduced responsive web design that provided an enhanced mobile and tablet experience, improved the site response time and added additional product offerings for vendor direct to customer shipments.

HomeTown Pet

We opened two HomeTown Pet stores in fiscal 2014. HomeTown Pet is a new pet supply store that provides high-quality products, knowledge and service to pet owners. The stores offer products for a wide variety of pets and animals, including cats, dogs, birds, reptiles and fish, as well as grooming and vet services. We are a ‘test-and-learn’ company, and we believe these stores will help us gain better insight into the pet and animal supply category and provide valuable information that can help us better understand the unique needs of our pet customers.

Management and Team Members

As of December 26, 2015, we employed approximately 12,000 full-time and 11,000 part-time team members. We also employ additional part-time team members during peak periods. We are not party to any collective bargaining agreements.

At the end of fiscal 2015, our store operations were organized into nine regions. Each region is led by a regional director or vice president, and the region is further organized into districts, each of which is led by a district manager. We have two internal advisory boards, one comprised of store managers and the other comprised of district managers. These groups bring a grassroots perspective to operational initiatives and generate chain-wide endorsement of proposed best-practice solutions.

All of our team members participate in one of various bonus incentive programs, which provide the opportunity to receive additional compensation based upon team and/or Company performance. In addition to bonus incentive programs, we provide our eligible team members the opportunity to participate in an employee stock purchase plan and a 401(k) retirement savings plan. We also share in the cost of health insurance provided to eligible 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 prepare our high-potential team members for greater responsibility. Our current team of district managers and store managers have an average tenure of approximately six 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 growth.

Continuous Improvement

We are committed to a continuous improvement program called Tractor Value System (“TVS”), which is our catalyst to drive change throughout our organization. TVS is a business management system that emphasizes, through data analytics and team member engagement, a focus on continuous improvement. Through TVS, we examine business processes and identify opportunities to reduce costs, drive innovation, and improve effectiveness. We have implemented numerous continuous improvement projects (with team members from multiple areas of our business) to evaluate key operations and implement process changes. Team members are empowered and expected to challenge current paradigms and improve processes. Our management encourages the participation of all team members in decision-making, regularly solicits input and suggestions from our team members and incorporates suggestions into our improvement activities.

Management Information and Control Systems

We have invested considerable resources in our management information and control systems to support superior customer service, manage the purchase and distribution of our merchandise, improve our operating efficiencies and support online operations. Our key management information and control systems include a point-of-sale system, an e-commerce platform, a supply chain management and replenishment system, a warehouse management system, a price optimization system, 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, refreshes and upgrades to support optimal software configurations and application performance. We plan to continue to invest in information technology and implement efficiency-driving system enhancements. We continue to strengthen the security of our information systems and invest in technology to support store, distribution facility and omni-channel expansion. These efforts are directed toward improving business processes, maintaining secure, efficient and stable systems, and enabling the continued growth and success of our business.

Growth Strategy

Our current and long-term growth strategy is to: (1) expand domestic geographic market presence through opening new retail stores, (2) enhance financial performance through comparable store sales growth achieved through targeted merchandising and marketing programs with an “everyday value price” philosophy supported by strong customer service, (3) enhance product margin through strategic product sourcing, inventory and markdown management, a strong exclusive brand offering, and optimization of product pricing and transportation costs, (4) leverage operating costs by focusing on opportunities for continuous improvement and elimination of waste in all of our processes, (5) expand market opportunities via omni-channel enhancements, tying together our website product content, social media and online shopping experience, and (6) expand through selective acquisitions, as such opportunities arise, to enhance penetration into new and existing markets to complement organic growth.

Over the past five years we have experienced considerable sales growth, resulting in a compounded annual growth rate of approximately 11.3%. We plan to open approximately 115 to 120 new stores in 2016, a selling square footage increase of approximately 8.0%. We opened 114 new stores in 2015 and 107 new stores in 2014, which represents selling square footage increases of approximately 8.0% during fiscal 2015 and 8.3% during fiscal 2014.

At December 26, 2015, we operated 1,488 retail stores in 49 states. Given the size of the communities that we target, we believe that there is ample opportunity for new store growth in many existing and new markets. We have developed a proven method for selecting store sites and have identified over 1,000 additional markets for new Tractor Supply stores. Approximately 58% of our stores are in freestanding buildings and 42% are located in strip shopping centers. We lease approximately 93% of our stores and own the remaining 7%.

Competition

We operate in a competitive retail industry. The principal competitive factors include location of stores, price and quality of merchandise, in-stock consistency, merchandise assortment and presentation, and customer service. We compete with general

merchandise retailers, home center retailers, specialty and discount retailers, independently owned retail farm and ranch stores, numerous privately-held regional farm store chains and farm cooperatives, as well as internet-based retailers. However, we believe we successfully differentiate ourselves from many of these retailers by focusing on our specialized market niche for customers living the rural lifestyle. See further discussion of competition in 1A, “Risk Factors” of this Annual Report on Form 10-K.

Seasonality and Weather

Our business is seasonal. Historically, our sales and profits are the highest in the second and fourth fiscal quarters due to the sale of seasonal products. We experience our highest inventory and accounts payable balances during our first fiscal quarter for purchases of seasonal products to support the higher sales volume of the spring selling season and again during our third fiscal quarter to support the higher sales volume of the cold-weather selling season.

Historically, weather conditions, including unseasonably warm weather in the fall and winter months and unseasonably cool weather in the spring and summer months, have affected the timing and volume of our sales and results of operations. In addition, extreme weather conditions, including snow and ice storms, flood and wind damage, hurricanes, tornadoes, extreme rain and droughts, have impacted operating results both negatively and positively, depending on the severity and length of these conditions. Our strategy is to manage product flow and adjust merchandise assortments and depth of inventory to capitalize on seasonal demand trends.

Stewardship and Compliance with Environmental Matters

Our operations are subject to numerous federal, state and local laws and regulations enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. We are committed to complying with all applicable environmental laws and regulations. We are also committed to becoming a more environmentally sustainable company. This commitment is demonstrated through our Stewardship Program, which is our environmental sustainability program. Through this program, the Company has implemented a number of initiatives designed to reduce our impact on the environment. These initiatives include the installation of energy management systems, high efficiency lighting and heating/air conditioning systems in our stores, and recycling programs in our stores, distribution facilities and the Store Support Center. Our Store Support Center, opened in 2014, and our new distribution center in Casa Grande, Arizona, opened in 2015, were each awarded LEED (Leadership in Energy and Environmental Design) Silver certification for environmentally sustainable design, construction and operation. We also installed solar arrays at the Store Support Center in Brentwood, Tennessee and our store in Hendersonville, Tennessee.

Executive Officers of the Registrant

Pursuant to General Instruction G(3) of Form 10-K, the following list is included 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 May 3, 2016.

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

Name	Position	Age
Gregory A. Sandfort	President and Chief Executive Officer and Director	60
Anthony F. Crudele	Executive Vice President – Chief Financial Officer and Treasurer	59
Steve K. Barbarick	Executive Vice President – Chief Merchandising Officer	48
Benjamin F. Parrish, Jr.	Executive Vice President – General Counsel and Corporate Secretary	59
Chad M. Frazell	Senior Vice President – Human Resources	43
Robert D. Mills	Senior Vice President – Chief Information Officer	43

Gregory A. Sandfort has served as President and Chief Executive Officer since December 2012, prior to which he served as President and Chief Operating Officer of the Company since February 2012. Mr. Sandfort previously served as President and Chief Merchandising Officer of the Company since February 2009, after having served as Executive Vice President – Chief Merchandising Officer of the Company since November 2007. Mr. Sandfort served as President and Chief Operating Officer at Michaels Stores, Inc. from March 2006 to August 2007 and as Executive Vice President – General Merchandise Manager at Michaels Stores, Inc. from January 2004 to February 2006. Mr. Sandfort has served as a director of the Company since February 2013.

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 and as Chief Financial Officer of Xcelerate Corp. from January 2000 to January 2003. He held roles at The Sports Authority from 1989 through 1999 (serving as Chief Financial Officer from 1996 through 1999).

Steve K. Barbarick has served as Executive Vice President – Chief Merchandising Officer for the Company since September 2012 and prior to that time served as Senior Vice President – Merchandising since February 2011. Mr. Barbarick previously served as Vice President – Merchandising since June 2009, after having served as Vice President and Divisional Merchandise Manager since 2003.

Benjamin F. Parrish, Jr. has served as Executive Vice President – General Counsel and Corporate Secretary of the Company since February 2015, after having served as Senior Vice President – General Counsel and Corporate Secretary of the Company since October 2010. Mr. Parrish previously served as Executive Vice President and General Counsel of MV Transportation, Inc. from September 2008 until he joined the Company. He served as Senior Vice President and General Counsel of Central Parking Corporation from 1998 to 2008.

Chad M. Frazell has served as Senior Vice President - Human Resources since August 2014. Mr. Frazell previously served as Senior Vice President, Human Resources for Shopko Stores Operating Co., LLC from April 2011 until he joined the Company. From 2008 to 2011, Mr. Frazell served as Vice President, Human Resources for Kohl's Corporation, where he began as a store manager in 1999. Prior to 1999, Mr. Frazell served as a store manager and assistant manager for Target Corporation. He began his career with Wal-Mart Stores, Inc., where he served as an assistant manager and sales associate.

Robert D. Mills has served as Senior Vice President - Chief Information Officer since February 2014. Mr. Mills previously served as Chief Information Officer for Ulta Beauty from October 2011 until he joined the Company. From 2005 to 2011, Mr. Mills was Vice President, Chief Information Officer for the online business unit at Sears Holdings Corporation where he began as an Information Technology Customer Relationship Leader in 2001. Prior to 2001, Mr. Mills held roles at Allstate Insurance, Rockwell International Telecommunications Division, and Household Finance Corporation.

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.

Item 1A. Risk Factors

Our business faces many risks. Those risks of which we are currently aware and 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. A weakening of economic conditions affecting disposable consumer income such as lower employment levels, uncertainty or changes in business or political conditions, higher interest rates, higher tax rates, higher 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 competitors. A general reduction in the level of discretionary spending, shifts in consumer discretionary spending to our competitors or shifts in discretionary spending to less profitable products sold by

us, could result in lower net sales, slower inventory turnover, greater markdowns on inventory, and a reduction in profitability due to lower margins.

Failure to protect our reputation could have a material adverse effect on our brand name.

Our success depends in part on the value and strength of the Tractor Supply name. The Tractor Supply name is integral to our business as well as to the implementation of our strategies for expanding our business. Maintaining, promoting, and positioning our brand will depend largely on the success of our marketing and merchandising efforts and our ability to provide high quality merchandise and a consistent, high quality customer experience. Our brand could be adversely affected if we fail to achieve these objectives or if our public image or reputation were to be tarnished by negative publicity. Failure to comply or accusation of failure to comply with ethical, social, product, labor and environmental standards could also jeopardize our reputation and potentially lead to various adverse consumer actions. Any of these events could result in decreased revenue or otherwise adversely affect our business.

We may be unable to increase sales at our existing stores.

We experience fluctuations in our comparable store sales, defined as sales in stores which have been open for at least twelve months. Various factors affect comparable store sales, including the general retail sales environment, our ability to efficiently source and distribute products, changes in our merchandise assortment, competition, proximity of our locations to one another or to the locations of other retailers, current economic conditions, customer satisfaction with our products, the timing of promotional events, the release of new merchandise, the success of marketing programs and weather conditions. These factors may cause our comparable store sales results to differ materially from prior periods and from expectations. Past comparable store sales are not necessarily an indication of future results, and there can be no assurance that our comparable store sales will not decrease in the future.

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, grain, corn, steel, petroleum, cotton and other commodities as well as transportation services. Therefore, we may experience both inflationary and deflationary pressure on product cost, which may impact consumer demand and, as a result, sales and gross margin. Our strategy is to reduce or mitigate the effects of purchase price volatility principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases, adjusting retail prices and selectively buying from the most competitive vendors while maintaining product quality. Should our strategy to mitigate purchase price volatility not be effective, our financial performance could be adversely impacted.

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

Weather conditions affect the demand for, and in some cases the supply of, products, which in turn has an impact on prices. Historically, weather conditions, including unseasonably warm weather in the fall and winter months and unseasonably cool weather in the spring and summer months, have affected the timing and volume of our sales and results of operations. In addition, extreme weather conditions, including snow and ice storms, flood and wind damage, hurricanes, tornadoes, extreme rain and droughts, have impacted operating results both negatively and positively, depending on the severity and length of these conditions. Our strategy is to manage product flow and adjust merchandise assortments and depth of inventory to capitalize on seasonal demand trends. Should such a strategy not be effective, the weather may have a material adverse effect on our financial condition and results of operations.

Our merchandising initiatives and marketing emphasis may not 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 programs. These merchandising initiatives and marketing programs may not deliver expected results, and there is no assurance that we will correctly identify and respond in a timely manner to evolving trends and consumer preferences and expectations. If we misjudge the market or our marketing programs are not successful, we may overstock unpopular products and be forced to take inventory price reductions that have a material adverse influence on our profitability. 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. Shortages of key merchandise could also have a material adverse impact on operating results and financial condition.

Capital required for growth may not be available.

The construction or acquisition of new stores, store support center facilities, distribution facilities or other facilities, the remodeling and renovation of existing facilities and investments in information technology require significant amounts of capital. In the past, our growth has been funded through internally generated cash flow and bank borrowings. Disruptions in the capital and credit markets could adversely affect the ability of the banks to meet their commitments. Our access to funds under our credit facility

(as discussed in Note 3 to the Consolidated Financial Statements) is dependent on the ability of the banks that are parties to the facility to meet their funding commitments. Those banks may not be able to meet their funding commitments to us if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time. In addition, tight lending practices may make it difficult for our real estate developers to obtain financing under acceptable loan terms and conditions. Unfavorable lending practices could impact the timing of our store openings and materially adversely affect our ability to open new stores in desirable locations.

Longer term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced funding 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, cash dividends or other discretionary uses of cash.

Failure to open and manage new stores in the number and manner currently contemplated could adversely affect our financial performance.

An integral part of our business strategy includes the expansion of our store base through new store openings. 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.

As we execute this expansion strategy, we may also experience managerial or operational challenges which may prevent any expected increase in sales, profitability or cash flow. Our ability to manage our planned expansion depends on the adequacy of our existing information systems, the efficiency and expansion of our distribution systems, the adequacy of the hiring and training process for new personnel (especially store managers), the effectiveness of our controls and procedures, and the ability to identify customer demand and build market awareness in different geographic areas. 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.

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

We may pursue strategic acquisitions and the failure of an acquisition to produce the anticipated results or the inability to fully integrate the acquired companies could have an adverse impact on our business.

We may, from time to time, acquire businesses we believe to be complementary to our business. The success of an acquisition is based on our ability to make accurate assumptions regarding the valuation, operations, growth potential, integration and other factors relating to the respective business. Acquisitions may result in difficulties in assimilating acquired companies and may result in the diversion of our capital and our management's attention from other business issues and opportunities. We may not be able to successfully integrate operations that we acquire, including their personnel, financial systems, distribution, operations and general operating procedures. If we fail to successfully integrate acquisitions, we could experience increased costs associated with operating inefficiencies which could have an adverse effect on our financial results. Also, while we employ several different methodologies to assess potential business opportunities, the new businesses may not meet our expectations and, therefore, adversely affect our financial performance.

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

We operate in the highly competitive retail merchandise sector with numerous competitors. These competitors include general merchandise retailers, home center retailers, other specialty retailers, internet retailers, independently owned farm and ranch stores, regional farm store chains and farm cooperatives. We compete for customers, merchandise, real estate locations, and employees. This competitive environment subjects us to various other risks, including the inability to continue our store and sales growth and to provide attractive merchandise to our customers at competitive prices that allow us to maintain our profitability. Our failure to compete effectively in this environment could adversely impact our financial performance.

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. We have agreements with our vendors in which the vendors agree to comply with applicable laws, including labor and environmental laws, and to indemnify us against certain liabilities and costs. Our ability to recover liabilities and costs under these vendor agreements is dependent upon the financial condition and integrity of the vendors.

We rely on 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 exposes us to the risk of inadequate and untimely supplies of various products due to political, economic, social, or environmental conditions, transportation delays, or changes in laws and regulations affecting distribution. Our vendors may be forced to reduce their production, shut down their operations or file for bankruptcy protection, which could make it difficult for us to serve the market's needs and could have a material adverse effect on our business.

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. As an importer, our business is subject to the risks generally associated with doing business internationally, 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.

We are subject to personal injury, workers' compensation, product liability and other claims in the ordinary course of business.

Our business involves a risk of personal injury, workers' compensation, product liability and other claims in the ordinary course of business. Product liability claims from customers and product recalls for merchandise alleged to be defective or harmful could lead to the disposal or write-off of merchandise inventories, the incurrence of fines or penalties and damage to our reputation. We maintain general liability and workers compensation insurance with a self-insured retention for each policy type and a deductible for each occurrence. We also maintain umbrella limits above the primary general liability and product liability coverage. In many cases, we have indemnification rights against the manufacturers of the products and their products liability insurance as well as the property owners of our leased buildings. Our ability to recover costs and damages under such insurance or indemnification arrangements is subject to the financial viability of the insurers, manufacturers and landlords and the specific allegations of a claim. No assurance can be given that our insurance coverage or the manufacturers' or landlords' indemnity will be available or sufficient in any claims brought against us.

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.

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.

Any failure to maintain the security of the information relating to our business, customers, employees and vendors that we hold, whether as a result of cybersecurity attacks or otherwise, could damage our reputation with customers, employees and vendors, could cause us to incur substantial additional costs and to become subject to litigation, and could adversely affect our operating results, financial condition and liquidity.

We receive certain personal information about our customers, employees and vendors. We also rely on business partners to provide services to us that may include important business information or data about our customers, employees and vendors. In addition, our online operations at TractorSupply.com depend upon the secure transmission of confidential information over public networks,

including information permitting cashless payments. While we maintain substantial security measures to protect and to prevent unauthorized access to such information, it is possible that unauthorized parties (through cyberattacks, which are rapidly evolving and becoming increasingly sophisticated, or by other means) might compromise our security measures and obtain the personal information of customers, employees and vendors that we hold or other confidential Company data. Such an occurrence could adversely affect our reputation with our customers, employees, and vendors, as well as our operations, results of operations, financial condition and liquidity, and could result in significant legal and financial exposure beyond the scope or limits of insurance coverage. Moreover, a security breach could require that we expend significant additional resources to respond to the breach and could result in a disruption of our operations.

In addition, states and the federal government are increasingly enacting laws and regulations relating to data breaches and theft of employee and customer data. These laws will likely increase the costs of doing business and, if we fail to comply with these laws and regulations or to implement appropriate safeguards or to detect and provide prompt notice of unauthorized access as required by some of these new laws, we could be subject to potential claims for damages and other remedies, which could harm our business.

As customer-facing technology systems become an increasingly important part of our sales and marketing strategy, the failure of those systems to perform effectively and reliably could keep us from delivering positive customer experiences.

Through our continued information technology enhancements, we are able to provide an improved overall shopping environment and an omni-channel experience that empowers our customers to shop and interact with us from computers, tablets, smart phones and other mobile communication devices. We use our website both as a sales channel for our products and also as a method of providing product, project and other relevant information to our customers to drive both in-store and online sales. Omni-channel retailing is continually evolving and expanding, and we must effectively respond to changing customer expectations and new developments. Disruptions, failures or other performance issues with these customer-facing technology systems could impair the benefits that they provide to our online and in-store business and negatively affect our relationship with our customers.

If we are unable to maintain or upgrade our management information systems and software programs or if we are unable to convert to alternate systems in an efficient and timely manner, our operations may be disrupted or become less efficient and our strategic business initiatives may not be successful.

We depend on management information systems for many aspects of our business. We rely on certain software vendors to maintain and periodically upgrade many of these systems so that we can continue to support our business. We could be materially adversely affected if we experienced a disruption or data loss relating to our management information systems and are unable to recover timely. We could also be adversely impacted if we are unable to improve, upgrade, maintain and expand our management information systems, particularly in light of the contemplated continued store growth.

The success of our strategic business initiatives designed to increase our sales and improve margin is dependent in varying degrees on the timely delivery and the functionality of information technology systems to support them. Extended delays or cost overruns in securing, developing and otherwise implementing technology solutions to support the strategic business initiatives would delay and possibly even prevent us from realizing the projected benefits of those initiatives.

A significant disruption to our distribution network or to the timely receipt of inventory could adversely impact sales or increase our transportation costs, which would decrease our profits.

We rely on our distribution and transportation network to provide goods to our stores in a timely and cost-effective manner through deliveries to our distribution facilities from vendors and then from the distribution facilities or direct ship vendors to our stores by various means of transportation, including shipments by sea, air, rail and truck. Any disruption, unanticipated expense or operational failure related to this process could affect store operations negatively. For example, unexpected delivery delays (including delays due to weather, fuel shortages or other reasons) or increases in transportation costs (including increased fuel costs or a decrease in transportation capacity for overseas shipments) could significantly decrease our ability to provide adequate product for sale, resulting in lower sales and profitability. In addition, labor shortages or work stoppages in the transportation industry or long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of deliveries could negatively affect our business. Also, a fire, tornado, or other disaster at one of our distribution facilities could disrupt our timely receiving, processing and shipment of merchandise to our stores which could adversely affect our business.

The implementation of our supply chain initiatives could disrupt our operations in the near term, and these initiatives might not provide the anticipated benefits or might fail.

We maintain a network of distribution facilities and have plans to build new facilities to support our growth objectives. Delays in opening distribution facilities could adversely affect our future operations by slowing store growth, which may in turn reduce revenue growth. In addition, distribution-related construction or expansion projects entail risks which could cause delays and cost overruns, such as: shortages of materials; shortages of skilled labor or work stoppages; unforeseen construction, scheduling,

engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion date and ultimate cost of future projects could differ significantly from initial expectations due to construction-related or other reasons. We cannot guarantee that all projects will be completed on time or within established budgets.

We continue to make significant technology investments in our supply chain. These initiatives are designed to streamline our distribution process so that we can optimize the delivery of goods and services to our stores and distribution facilities in a timely manner and at a reasonable cost. The cost and potential problems and interruptions associated with the implementation of these initiatives, including those associated with managing third-party service providers and employing new web-based tools and services, could disrupt or reduce the efficiency of our operations in the near term. In addition, our improved supply chain technology might not provide the anticipated benefits, it might take longer than expected to realize the anticipated benefits, or the initiatives might fail altogether.

We cannot provide any guaranty of future dividend payments or that we will continue to repurchase our common stock pursuant to our stock repurchase program.

Although our Board of Directors has indicated an intention to pay future quarterly cash dividends on our common stock, any determination to pay or increase cash dividends on our common stock in the future will be based primarily upon our financial condition, results of operations, business requirements, and our Board of Directors' continuing determination that the declaration of dividends is in the best interests of our stockholders and is in compliance with all laws and agreements applicable to the dividend. Furthermore, although our Board of Directors has authorized a share repurchase program of \$2 billion through December 2017, we may discontinue this program at any time.

The market price for our common stock might be volatile and could result in a decline in value.

The price at which our common stock trades may be volatile and could be subject to significant fluctuations in response to our operating results, general trends and prospects for the retail industry, announcements by our competitors, analyst recommendations, our ability to meet or exceed analysts' or investors' expectations, the condition of the financial markets and other factors. The Company's stock price is dependent in part on the multiple of earnings that investors are willing to pay. That multiple is in part dependent on investors' perception of the Company's future earnings growth prospects. If investor perceptions of the Company's earnings growth prospects change, the Company's earnings multiple may decline and its stock price could be adversely affected. In addition, the stock market in recent years has experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of companies. These fluctuations, as well as general economic and market conditions, may adversely affect the market price of our common stock notwithstanding our actual operating performance.

Our costs of doing business could increase as a result of federal, state, local or foreign laws and regulations.

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

We are also subject to the Foreign Corrupt Practices Act (the "FCPA"), which prohibits U.S. companies and their intermediaries from making improper payments to foreign officials for the purposes of obtaining or retaining business, and the anti-bribery laws of other jurisdictions. Failure to comply with the FCPA and similar laws could subject us to, among other things, penalties and legal expenses that could harm our reputation and have a material adverse effect on our business, financial condition and results of operations.

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") as well as state and local taxing authorities.

Like many retailers, a portion of our sales are to tax-exempt customers. The business activities of our customers and the intended use of the unique products sold by us create a challenging and complex compliance environment. These circumstances create risk that we could be challenged as to the propriety of our sales tax compliance. Our results could be materially impacted by the determinations and expenses related to these and other proceedings by the IRS and other state and local taxing authorities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 26, 2015, the Company operated 1,488 stores in 49 states. The Company leases approximately 93% of its stores, two distribution sites and its Merchandising Innovation Center (planogram) located in Nashville, Tennessee. Store leases typically have initial terms of 10 to 15 years, with two to four renewal periods of five years each, exercisable at our option. No single lease is material to Company operations.

The following is a count of store locations by state:

State	Number of Stores	State	Number of Stores
Texas	165	Colorado	17
Ohio	87	New Mexico	17
Pennsylvania	81	Washington	17
Michigan	80	Kansas	16
New York	75	Massachusetts	16
Tennessee ^(a)	71	Wisconsin	16
North Carolina	67	Illinois	14
Georgia	58	New Jersey	13
Florida	55	Utah	13
Kentucky	53	Connecticut	12
Virginia	51	Nebraska	12
Alabama	47	North Dakota	11
Indiana	46	Minnesota	10
California	44	Iowa	7
Oklahoma	35	Vermont	7
South Carolina	33	South Dakota	6
Louisiana	30	Wyoming	6
Arizona	28	Delaware	4
Mississippi	25	Idaho	4
West Virginia	24	Montana	4
Arkansas	23	Oregon	3
Missouri	20	Rhode Island	3
New Hampshire	20	Hawaii	2
Maine	19	Nevada	2
Maryland	19		
			<u>1,488</u>

^(a) Includes the Company's two HomeTown Pet stores.

The following is a list of distribution locations including the approximate square footage and if the location is leased or owned:

Distribution Facility Location	Approximate Square Footage	Owned/Leased Facility
Franklin, Kentucky	833,000	Owned
Pendleton, Indiana	764,000	Owned
Macon, Georgia	684,000	Owned
Waco, Texas	666,000	Owned
Casa Grande, Arizona	650,000	Owned
Hagerstown, Maryland ^(a)	482,000	Owned
Hagerstown, Maryland ^(a)	309,000	Leased
Waverly, Nebraska	422,000	Owned
Seguin, Texas ^(b)	71,000	Owned
Lakewood, Washington	64,000	Leased
Longview, Texas ^(b)	63,000	Owned

^(a) The leased facility in Hagerstown is treated as an extension of the existing owned Hagerstown location and is not considered a separate distribution center.

^(b) This is a mixing center designed to process certain high-volume bulk products.

The Company's Store Support Center occupies approximately 260,000 square feet of owned building space in Brentwood, Tennessee, and the Company's Merchandising Innovation Center occupies approximately 32,000 square feet of leased building space in Nashville, Tennessee.

Item 3. Legal Proceedings

The Company responded to a Request for Information from the United States Environmental Protection Agency ("EPA") in the first quarter of fiscal 2009 relating to certain recreational vehicles and non-road spark ignition engines sold by the Company. In the first quarter of fiscal 2011, the Environmental Enforcement Section of the Department of Justice ("DOJ"), on behalf of the EPA, informed the Company that it believed the Company had violated the Clean Air Act by importing or causing the importation of certain engines that were noncompliant.

The products at issue were purchased by the Company pursuant to agreements with vendors under which the vendors represented that their products complied with all the applicable laws and regulations and under which the vendors agreed to indemnify the Company for any liabilities or costs relating to, among other matters, the noncompliance or alleged noncompliance of their products. The Company notified these vendors of the EPA's position and worked with these vendors to provide additional information to the DOJ and EPA regarding the alleged violations. As a result of this process, the Company and its vendors provided evidence that many of the products identified by the DOJ and EPA in early 2011 were, in fact, in compliance with the Clean Air Act and that most of the remaining issues related to products purchased from one vendor. The vendor of these products and the Company engaged in settlement discussions with the DOJ and EPA that resulted in the settlement of the matter. A consent decree reflecting the terms of the settlement was filed with the United States District Court in Washington, D.C. on September 30, 2015.

Under the settlement, the Company agreed to implement a formal compliance program for the small-engine products purchased by the Company for resale to its customers. The Company also agreed to pay a civil penalty, most of which was reimbursed by the vendor who sold the small-engine products at issue to the Company. In addition, the Company agreed to sponsor an emissions offset program that will result in the replacement of 22 older wood-burning stoves with EPA-certified wood-burning stoves. The settlement was approved by the court on January 19, 2016. The civil penalty did not differ materially from the amount accrued. The cost of the settlement and the compliance and emission offset program will not have a material effect on our financial condition, results of operations or cash flows.

The Company is also involved in various litigation matters arising in the ordinary course of business. The Company believes that any estimated loss related to such matters has been adequately provided in accrued liabilities to the extent probable and reasonably estimable. Accordingly, the Company currently expects these matters will be resolved without material adverse effect on its consolidated financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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			
	2015		2014	
	High	Low	High	Low
First Quarter	\$90.49	\$74.52	\$78.17	\$62.06
Second Quarter	\$93.99	\$83.70	\$72.99	\$59.75
Third Quarter	\$96.28	\$75.00	\$67.84	\$57.20
Fourth Quarter	\$94.00	\$80.06	\$79.14	\$55.95

As of January 29, 2016, the number of record holders of our common stock was 700 (excluding individual participants in nominee security position listings), and the estimated number of beneficial holders of our common stock was 100,000.

Common Stock Dividends

During 2015 and 2014, the Board of Directors declared the following cash dividends:

Date Declared	Dividend Amount Per Share	Stockholders of Record Date	Date Paid
November 2, 2015	\$0.20	November 16, 2015	December 1, 2015
August 3, 2015	\$0.20	August 17, 2015	September 1, 2015
May 4, 2015	\$0.20	May 18, 2015	June 2, 2015
February 4, 2015	\$0.16	February 23, 2015	March 10, 2015
October 29, 2014	\$0.16	November 17, 2014	December 2, 2014
July 30, 2014	\$0.16	August 18, 2014	September 3, 2014
April 30, 2014	\$0.16	May 19, 2014	June 3, 2014
February 5, 2014	\$0.13	February 24, 2014	March 11, 2014

It is the present intention of the Board of Directors to continue to pay a quarterly cash dividend; however, the declaration and payment of future dividends will be determined by the Board of Directors in its sole discretion and will depend upon the earnings, financial condition, and capital needs of the Company, as well as other factors which the Board of Directors deem relevant.

On February 3, 2016, our Board of Directors declared a quarterly cash dividend of \$0.20 per share of the Company’s common stock. The dividend will be paid on March 8, 2016, to stockholders of record as of the close of business on February 22, 2016.

Issuer Purchases of Equity Securities

The Company's Board of Directors has authorized common stock repurchases under a share repurchase program of up to \$2 billion, exclusive of any fees, commissions, or other expenses related to such repurchases, through December 2017. Additionally, the Company withholds shares from vested restricted stock units to satisfy employees' minimum statutory tax withholding requirements. Stock purchase activity during fiscal 2015 is set forth in the table below:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
First Quarter ^(a)	609,140	\$ 80.51	596,200	\$ 815,403,974
Second Quarter ^(a)	876,106	87.45	875,900	738,821,721
Third Quarter ^(a)	1,400,896	86.60	1,378,700	619,426,366
Fourth Quarter:				
9/27/15 – 10/24/15	354,636	85.16	354,636	589,232,534
10/25/15 – 11/21/15	72,777	89.95	72,777	582,687,686
11/22/15 – 12/26/15	137,200	87.49	137,200	570,686,010
	<u>564,613</u>	<u>86.34</u>	<u>564,613</u>	<u>570,686,010</u>
As of December 26, 2015	<u>3,450,755</u>	\$ <u>85.70</u>	<u>3,415,413</u>	\$ <u>570,686,010</u>

^(a) The total number of shares purchased and average price paid per share include shares withheld from vested restricted stock units to satisfy employees' minimum statutory tax withholding requirements of 12,940 during the first quarter, 206 during the second quarter, and 22,196 during the third quarter.

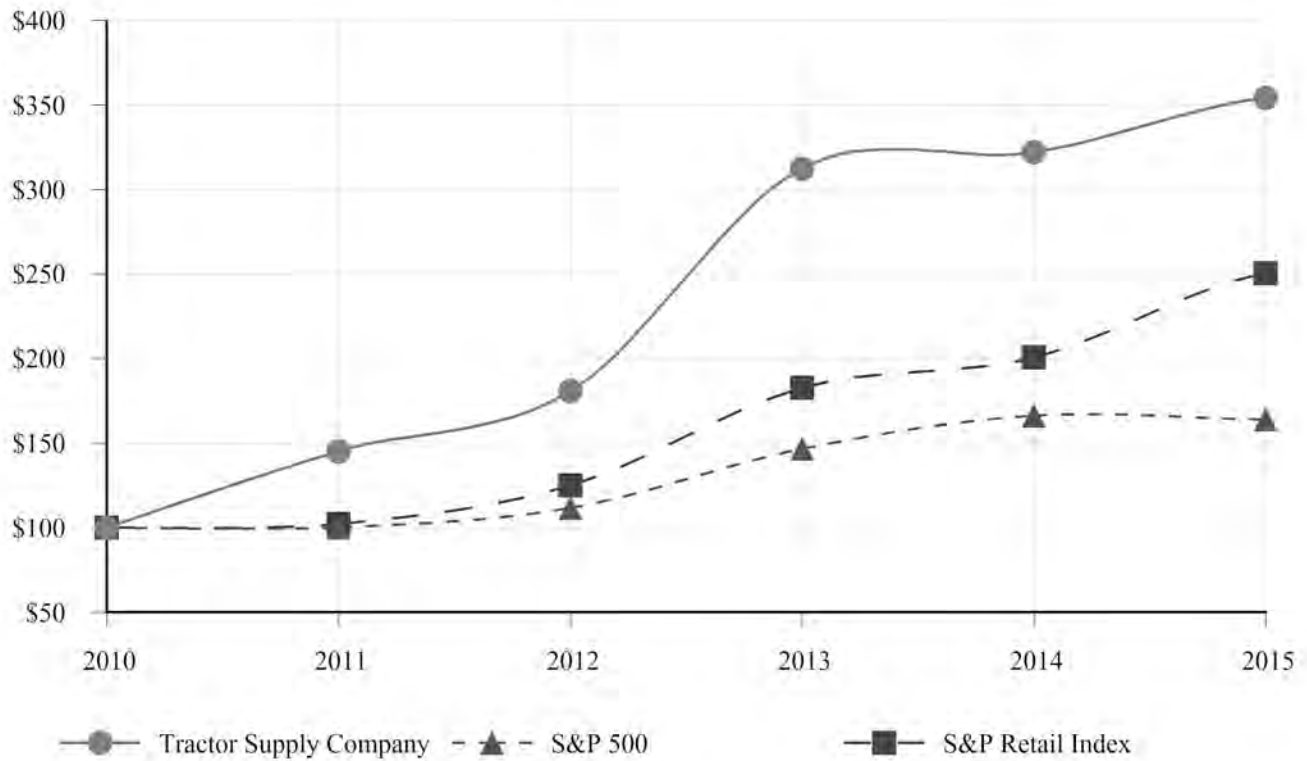
We expect to implement the balance of the repurchase program through purchases made from time to time either in the open market or through private transactions, in accordance with regulations of the SEC and other applicable legal requirements. The timing and amount of any common stock repurchased under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

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

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, 2010 to December 26, 2015 (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, 2010 in our common stock and in each of the foregoing indices and in each case assumes reinvestment of dividends. The historical stock price performance shown on this graph is not necessarily indicative of future performance.



	12/25/2010	12/31/2011	12/29/2012	12/28/2013	12/27/2014	12/26/2015
Tractor Supply Company	\$ 100.00	\$ 144.94	\$ 180.72	\$ 312.15	\$ 321.98	\$ 354.01
S&P 500	\$ 100.00	\$ 100.07	\$ 111.59	\$ 146.52	\$ 166.20	\$ 163.99
S&P Retail Index	\$ 100.00	\$ 102.22	\$ 124.95	\$ 182.52	\$ 200.64	\$ 250.37

Item 6. Selected Financial Data**FIVE YEAR SELECTED FINANCIAL AND OPERATING HIGHLIGHTS ^(a)**

The following selected financial data is derived from the Consolidated Financial Statements of Tractor Supply Company and provides summary historical financial information for the fiscal periods ended and as of the dates indicated (in thousands, except per share amounts and selected operating and other data):

	2015 (52 weeks)	2014 (52 weeks)	2013 (52 weeks)	2012 (52 weeks)	2011 (53 weeks)
Operating Results:					
Net sales	\$ 6,226,507	\$ 5,711,715	\$ 5,164,784	\$ 4,664,120	\$ 4,232,743
Gross profit	2,143,174	1,950,415	1,753,609	1,566,054	1,406,872
Selling, general and administrative expenses	1,369,097	1,246,308	1,138,934	1,040,287	973,822
Depreciation and amortization	123,569	114,635	100,025	88,975	80,347
Operating income	650,508	589,472	514,650	436,792	352,703
Interest expense, net	2,891	1,885	557	1,055	2,087
Income before income taxes	647,617	587,587	514,093	435,737	350,616
Income tax expense	237,222	216,702	185,859	159,280	127,876
Net income	\$ 410,395	\$ 370,885	\$ 328,234	\$ 276,457	\$ 222,740
Net income per share – basic ^(b)	\$ 3.03	\$ 2.69	\$ 2.35	\$ 1.94	\$ 1.55
Net income per share – diluted ^(b)	\$ 3.00	\$ 2.66	\$ 2.32	\$ 1.90	\$ 1.51
Weighted average shares – diluted ^(b)	136,845	139,435	141,723	145,514	147,842
Dividends declared per common share outstanding	\$ 0.76	\$ 0.61	\$ 0.49	\$ 0.36	\$ 0.22
Operating Data (percent of net sales):					
Gross margin	34.4 %	34.1%	34.0%	33.6%	33.2%
Selling, general and administrative expenses	22.0 %	21.8%	22.1%	22.3%	23.0%
Operating income	10.4 %	10.3%	10.0%	9.4%	8.3%
Net income	6.6 %	6.5%	6.4%	6.0%	5.3%
Store, Sales and Other Data:					
Stores open at end of year	1,488	1,382	1,276	1,176	1,085
Comparable store sales increase ^(c)	3.1 %	3.8%	4.8%	5.3%	8.2%
New store sales (as a % of net sales) ^(d)	5.6 %	6.2%	5.4%	5.9%	5.6%
Average transaction value	\$ 44.87	\$ 44.84	\$ 44.48	\$ 44.40	\$ 43.33
Comparable store average transaction value (decrease) increase ^(c)	(0.2)%	0.6%	0.0%	2.0%	3.1%
Comparable store average transaction count increase ^(c)	3.3 %	3.2%	4.7%	3.0%	5.0%
Total selling square footage (000's)	23,938	22,176	20,470	18,893	17,506
Total team members	23,000	21,100	19,200	17,300	16,400
Capital expenditures (000's)	\$ 236,496	\$ 160,613	\$ 218,200	\$ 152,924	\$ 166,156
Balance Sheet Data (at end of period):					
Average inventory per store ^(e)	\$ 820.1	\$ 752.7	\$ 723.5	\$ 727.4	\$ 723.4
Inventory turns	3.23	3.32	3.29	3.28	3.23
Working capital	\$ 814,147	\$ 670,897	\$ 677,107	\$ 569,547	\$ 629,624
Total assets	\$ 2,370,826	\$ 2,034,571	\$ 1,903,391	\$ 1,706,808	\$ 1,594,832
Long-term debt, less current portion ^(f)	\$ 166,992	\$ 4,957	\$ 1,200	\$ 1,242	\$ 1,284
Stockholders' equity	\$ 1,393,294	\$ 1,293,561	\$ 1,246,894	\$ 1,024,974	\$ 1,008,290

^(a) 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 2011 consisted of 53 weeks while all other fiscal years consisted of 52 weeks.

^(b) Basic net income per share is calculated based on the weighted average number of common shares outstanding applied to net income. Diluted net income per share is calculated using the treasury stock method for stock options and restricted stock units.

^(c) Comparable store metrics are calculated on an annual basis using sales generated from all stores open at least one year and all online sales, excluding certain adjustments to net sales. Beginning in fiscal 2015, stores closed during the year are removed from our comparable store metrics calculations. This change in the calculation methodology did not have a material impact on the comparable store metrics reported in prior periods presented due to the minimal number of stores closed in those periods. Stores relocated during the years being compared are not removed from our comparable store metrics. If the effect of relocated stores on our comparable store metrics becomes material, we would remove relocated stores from the calculations.

^(d) New stores sales metrics are based on stores open for less than one year.

^(e) Assumes average inventory cost, excluding inventory in-transit.

^(f) Long-term debt includes amounts outstanding under the Company's 2011 Senior Credit Facility and capital lease obligations, excluding the current portions.

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

The following discussion and analysis is intended to provide the reader with information that will assist in understanding the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three-year period ended December 26, 2015 (our fiscal years 2015, 2014 and 2013). This discussion should be read in conjunction with our Consolidated Financial Statements and Notes to the Consolidated Financial Statements included elsewhere in this report. This discussion contains forward-looking statements. See "Forward-Looking Statements" and "Risk Factors" included elsewhere in this report.

Overview

Tractor Supply Company is the largest operator of rural lifestyle retail stores in the United States. The Company is focused on supplying the needs of recreational farmers and ranchers and others who enjoy the rural lifestyle (which we refer to as the "Out Here" lifestyle), as well as tradesmen and small businesses. As of December 26, 2015, we operated 1,488 retail stores in 49 states under the names *Tractor Supply Company*, *Del's Feed & Farm Supply* and *HomeTown Pet*. We also operate a website under the name *TractorSupply.com*. Our stores are located primarily in towns outlying major metropolitan markets and in rural communities, and they offer the following comprehensive selection of merchandise:

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

Our current and long-term growth strategy is to: (1) expand domestic geographic market presence through opening new retail stores, (2) enhance financial performance through comparable store sales growth achieved through targeted merchandising and marketing programs with an "everyday value price" philosophy supported by strong customer service, (3) enhance product margin through strategic product sourcing, inventory and markdown management, a strong exclusive brand offering, and optimization of product pricing and transportation costs, (4) leverage operating costs by focusing on opportunities for continuous improvement and elimination of waste in all of our processes, (5) expand market opportunities via omni-channel enhancements, tying together our website product content, social media and online shopping experience, and (6) expand through selective acquisitions, as such opportunities arise, to enhance penetration into new and existing markets to complement organic growth.

Over the past five years we have experienced considerable growth in stores, growing from 1,001 stores at the end of 2010 to 1,488 stores at the end of fiscal 2015, and in sales, with a compounded annual growth rate of approximately 11.3%. Given the size of the communities that we target, we believe that there is ample opportunity for new store growth in existing and new markets. We have developed a proven method for selecting store sites and have identified approximately 1,000 additional opportunities for new Tractor Supply stores.

Executive Summary

We opened 114 new stores in 2015 and 107 new stores in 2014, a selling square footage increase of approximately 8.0% in fiscal 2015 and approximately 8.3% in fiscal 2014. During 2015, we opened stores in 33 states and completed construction of a new distribution center in Casa Grande, Arizona to support our continued expansion into the western states. Also in 2015, we completed construction of two smaller cross-dock facilities ("mixing centers") in Texas to improve distribution of certain high-volume bulk products.

Net sales increased 9.0% to \$6.23 billion in fiscal 2015 from \$5.71 billion in fiscal 2014. Comparable store sales increased 3.1% in fiscal 2015 versus a 3.8% increase in fiscal 2014. Gross profit increased 9.9% to \$2.14 billion in fiscal 2015 from \$1.95 billion in fiscal 2014, and gross margin increased 30 basis points to 34.4% of sales in fiscal 2015 from 34.1% of sales in fiscal 2014. Operating income increased 10 basis points to 10.4% of net sales in fiscal 2015 from 10.3% of net sales in fiscal 2014. In fiscal 2015, diluted earnings per share grew 12.8%, to \$3.00 compared to \$2.66 in fiscal 2014.

We ended the year with \$63.8 million in cash and outstanding debt of \$150.0 million, after returning \$395.8 million to our stockholders through stock repurchases and dividends.

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>
Inventory Valuation:		
<u>Inventory Impairment</u>		
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. We have established an inventory valuation reserve to recognize the estimated impairment in value (i.e., an inability to realize the full carrying value) based on our aggregate assessment of these valuation indicators under prevailing market conditions and current merchandising strategies.	<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 inventory 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 as of December 26, 2015, would have affected net income by approximately \$0.4 million in fiscal 2015.</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 a reserve 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, the effect of loss prevention measures and new merchandising strategies.</p>	<p>We have not made any material changes in the accounting 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 as of December 26, 2015, would have affected net income by approximately \$1.2 million in fiscal 2015.</p>
<p><u>Vendor Funding</u></p> <p>We receive funding from substantially all of our significant merchandise vendors, in support of our business initiatives, through a variety of programs and arrangements, including vendor support funds ("vendor support") and volume-based rebate funds ("volume rebates"). The amounts received are subject to terms of vendor agreements, most of which are "evergreen", reflecting the on-going relationship with our significant merchandise vendors. Certain of our agreements, primarily volume rebates, are renegotiated annually, based on expected annual purchases of the vendor's product.</p> <p>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.</p> <p>During interim periods, the amount of vendor support is estimated based upon initial commitments and 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 volume rebates at interim periods, it is possible that actual year-end results could be different 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 collectability.</p>	<p>We have not made any material changes in the accounting methodology used to establish our vendor support reserves in the financial periods presented.</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 collectability risk related to vendor support amounts due us at the end of fiscal 2015.</p> <p>If a 10% reserve had been applied against our outstanding vendor support due as of December 26, 2015, net income would have been affected by approximately \$1.7 million in fiscal 2015.</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>We have not made any material changes in the accounting methodology used to establish our capitalized freight balance or freight allocation in the financial periods presented.</p> <p>If a 10% increase or decrease had been applied against our current inventory capitalized freight balance as of December 26, 2015, net income would have been affected by approximately \$6.6 million in fiscal 2015.</p>

<u>Description</u>	<u>Judgments and Uncertainties</u>	<u>Effect if Actual Results Differ From Assumptions</u>
Self-Insurance Reserves:		
<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>Provisions for losses related to our self-insured liabilities are based upon periodic independent actuarially determined estimates that 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 based upon historical data and experience, including actuarial calculations.</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 as of December 26, 2015, would have affected net income by approximately \$3.2 million in fiscal 2015.</p>
Sales Tax Audit Reserve:		
<p>A portion of our sales are to tax-exempt customers, predominantly agricultural-based. 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 accuracy of our sales tax compliance.</p> <p>When establishing our sales tax audit reserve, we review our past audit experience and assessments with applicable states to continually determine if we have potential exposure for non-compliance. Any estimated liability is based on an initial assessment of compliance risk as well as our historical experience with each respective state.</p>	<p>We continually reassess the exposure based on historical audit results, changes in policies, preliminary and final assessments made by state sales tax auditors, and 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 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>We have not made any material changes to our sales tax audit 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 future estimates or assumptions we use to calculate the sales tax liability reserve. 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 audit reserve as of December 26, 2015, would have affected net income by approximately \$0.8 million in fiscal 2015.</p>

<u>Description</u>	<u>Judgments and Uncertainties</u>	<u>Effect if Actual Results Differ From Assumptions</u>
<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 a liability for uncertain tax positions taken or expected to be taken in a tax return. 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 recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. 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>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>We have not made any material changes in the accounting methodology used to establish our tax contingencies 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 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 uncertain tax position reserve as of December 26, 2015 would have affected net income by approximately \$0.2 million in fiscal 2015.</p>

<u>Description</u>	<u>Judgments and Uncertainties</u>	<u>Effect if Actual Results Differ From Assumptions</u>
<p>Impairment of 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 estimated 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 2015 and 2014 are shown below (in thousands, except per share amounts):

2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$ 1,331,352	\$ 1,772,900	\$ 1,475,645	\$1,646,610	\$ 6,226,507
Gross profit	444,605	625,320	512,248	561,001	2,143,174
Operating income	92,847	245,165	139,208	173,288	650,508
Net income	58,040	153,331	87,312	111,712	410,395

Net income per share:

Basic	\$ 0.43	\$ 1.13	\$ 0.64	\$ 0.83	\$ 3.03
Diluted	\$ 0.42	\$ 1.12	\$ 0.64	\$ 0.82	\$ 3.00

Comparable store sales increase (decrease) ^(a)	5.7%	5.6%	2.9%	(1.4)%	3.1%
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2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$ 1,183,680	\$ 1,583,831	\$ 1,359,950	\$ 1,584,254	\$ 5,711,715
Gross profit	396,219	550,532	464,069	539,595	1,950,415
Operating income	78,729	211,029	122,013	177,701	589,472
Net income	48,809	133,411	76,603	112,062	370,885

Net income per share:

Basic	\$ 0.35	\$ 0.96	\$ 0.56	\$ 0.82	\$ 2.69
Diluted	\$ 0.35	\$ 0.95	\$ 0.55	\$ 0.81	\$ 2.66

Comparable store sales increase ^(a)	2.2%	1.9%	5.6%	5.3%	3.8%
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^(a) Comparable store metrics are calculated using sales generated from all stores open at least one year and all online sales, excluding certain adjustments to net sales. Beginning in fiscal 2015, stores closed during the year are removed from our comparable store metrics calculations. This change in the calculation methodology did not have a material impact on the comparable store metrics reported in prior periods presented due to the minimal number of stores closed in those periods. Stores relocated during the periods being compared are not removed from our comparable store metrics. If the effect of relocated stores on our comparable store metrics becomes material, we would remove relocated stores from the calculations.

Results of Operations

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

	2015	2014	2013
Net sales	100.0%	100.0%	100.0%
Cost of merchandise sold ^(a)	65.6	65.9	66.0
Gross margin ^(a)	34.4	34.1	34.0
Selling, general and administrative expenses ^(a)	22.0	21.8	22.1
Depreciation and amortization	2.0	2.0	1.9
Income before income taxes	10.4	10.3	10.0
Income tax provision	3.8	3.8	3.6
Net income	6.6%	6.5%	6.4%

^(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 our Company) 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 2015 Compared to Fiscal 2014

Net sales increased 9.0% to \$6.23 billion in fiscal 2015 from \$5.71 billion in fiscal 2014. Comparable store sales for fiscal 2015 were \$5.89 billion, a 3.1% increase over fiscal 2014. This compares to a 3.8% comparable store sales increase in the prior year. The comparable store transaction count increased 3.3%, while comparable store average ticket decreased (0.2)% for fiscal 2015.

Comparable store metrics are calculated on an annual basis using sales generated from all stores open at least one year and all online sales, excluding certain adjustments to net sales. Beginning in fiscal 2015, stores closed during the year are removed from our comparable store metrics calculations. This change in the calculation methodology did not have a material impact on the comparable store metrics reported in prior periods due to the minimal number of stores closed in those periods. Stores relocated during the years being compared are not removed from our comparable store metrics. If the effect of relocated stores on our comparable store metrics becomes material, we would remove relocated stores from the calculations.

The comparable store sales increase was driven by an increase in traffic counts and the year-round strength of consumable, usable, edible ("C.U.E.") products, principally animal- and pet-related merchandise. Hardline products such as fencing, trailers and towing also performed well throughout the year. The full year sales performance was negatively impacted by fourth quarter weakness in the key cold weather seasonal categories of heating (stoves and fuel) and insulated outerwear along with softness in seasonal big ticket items such as snow blowers, log splitters and generators.

In addition to comparable store sales growth in fiscal 2015, sales from stores opened less than one year were \$351.0 million in fiscal 2015, which represented 6.1 percentage points of the 9.0% increase over fiscal 2014 net sales. Sales from stores opened less than one year were \$353.4 million in fiscal 2014, which represented 6.8 percentage points of the 10.6% increase over fiscal 2013 net sales.

The following chart summarizes our store growth during fiscal 2015 and 2014:

	2015	2014
Store Count, Beginning of Period	1,382	1,276
New Stores Opened	114	107
Stores Closed	(8)	(1)
Store Count, End of Period	1,488	1,382
Stores Relocated	6	2

The following chart indicates the percentage of sales represented by each of our major product categories during fiscal 2015 and 2014:

Product Category:	Percent of Sales	
	2015	2014
Livestock and Pet	44%	44%
Hardware, Tools, Truck and Towing	23	22
Seasonal, Gift and Toy Products	20	20
Clothing and Footwear	8	9
Agriculture	5	5
Total	100%	100%

Gross profit increased 9.9% to \$2.14 billion in fiscal 2015 compared to \$1.95 billion in fiscal 2014. As a percent of sales, gross margin increased 30 basis points to 34.4% for fiscal 2015 compared to 34.1% for fiscal 2014. This increase in gross margin principally reflects improved direct product margin. Direct product margin increased as a result of strong execution on our four strategic margin initiatives which include inventory and markdown management, strategic sourcing, exclusive branding and retail price management.

As a percent of sales, SG&A expenses, including depreciation and amortization, increased 20 basis points to 24.0% in fiscal 2015 from 23.8% in fiscal 2014. This increase in SG&A as a percent of sales was mainly related to deleverage in rent and other occupancy costs at the stores and incremental costs associated with our two new mixing centers and our new distribution facility in Casa Grande, Arizona. Total SG&A expenses, including depreciation and amortization, for fiscal 2015 increased 9.7% to \$1.49

billion from \$1.36 billion in fiscal 2014. The increase in SG&A expenses primarily reflects new store growth and variable costs associated with our comparable store sales growth.

Our effective tax rate decreased to 36.6% for fiscal 2015 compared to 36.9% in fiscal 2014 predominantly as a result of the reversal of various reserves for uncertain tax positions.

As a result of the foregoing factors, net income for fiscal 2015 increased 10.7% to \$410.4 million, or \$3.00 per diluted share, as compared to net income of \$370.9 million, or \$2.66 per diluted share, in fiscal 2014.

During fiscal 2015, we repurchased approximately 3.4 million shares of the Company's common stock at a total cost of \$292.7 million as part of our \$2 billion share repurchase program. In fiscal 2014, we repurchased approximately 4.7 million shares at a total cost of \$298.5 million.

Fiscal 2014 Compared to Fiscal 2013

Net sales increased 10.6% to \$5.71 billion in fiscal 2014 from \$5.16 billion in fiscal 2013. Comparable store sales for fiscal 2014 were \$5.37 billion, a 3.8% increase over fiscal 2013. This compares to a 4.8% comparable store sales increase in the prior year. The comparable store transaction count increased 3.2%, while comparable store average ticket increased 0.6% for fiscal 2014.

The comparable store sales increase was driven by continued strong results in key C.U.E. products, principally animal- and pet-related merchandise, and an increase in traffic counts. This was a result of continued investment in C.U.E. inventory, expanded product assortments and improved localized product offerings. Seasonal merchandise, predominantly heating and outdoor power equipment, performed well during the year. We also estimate that comparable store sales were unfavorably impacted by approximately 85 basis points due to deflation, principally in livestock feed and bird feeding products.

In addition to comparable store sales growth in fiscal 2014, sales from stores opened less than one year were \$353.4 million in fiscal 2014, which represented 6.8 percentage points of the 10.6% increase over fiscal 2013 net sales. Sales from stores opened less than one year were \$281.2 million in fiscal 2013, which represented 6.0 percentage points of the 10.7% increase over fiscal 2012 net sales.

The following chart summarizes our store growth during fiscal 2014 and 2013:

	2014	2013
Store Count, Beginning of Period	1,276	1,176
New Stores Opened ^(a)	107	102
Stores Closed	(1)	(2)
Store Count, End of Period	1,382	1,276
Stores Relocated	2	3

^(a) Includes the Company's two HomeTown Pet stores opened in fiscal 2014.

The following chart indicates the percentage of sales represented by each of our major product categories during fiscal 2014 and 2013:

Product Category:	Percent of Sales	
	2014	2013
Livestock and Pet	44%	43%
Hardware, Tools, Truck and Towing	22	23
Seasonal, Gift and Toy Products	20	20
Clothing and Footwear	9	9
Agriculture	5	5
Total	100%	100%

Gross profit increased 11.2% to \$1.95 billion in fiscal 2014 compared to \$1.75 billion in fiscal 2013. As a percent of sales, gross margin increased 10 basis points to 34.1% for fiscal 2014 compared to 34.0% for fiscal 2013. This improvement in gross margin reflects improved direct product margin partially offset by higher transportation costs, primarily due to our continued western store expansion. Direct product margin increased as a result of continued focus on our four strategic margin initiatives which include inventory and markdown management, strategic sourcing, exclusive branding and retail price management.

As a percent of sales, SG&A expenses, including depreciation and amortization, improved 20 basis points to 23.8% in fiscal 2014 from 24.0% in fiscal 2013. The SG&A improvement as a percent of sales was primarily attributable to the leverage of comparable store sales growth and lower year-over-year incentive compensation expense. Total SG&A expenses, including depreciation and amortization, for fiscal 2014 increased 9.8% to \$1.36 billion from \$1.24 billion in fiscal 2013. The increase in SG&A primarily reflects new store growth and variable costs associated with our comparable store sales growth.

Our effective tax rate increased to 36.9% for fiscal 2014 compared to 36.2% in fiscal 2013 as the prior year was favorably impacted by the reversal of various reserves for uncertain tax positions.

As a result of the foregoing factors, net income for fiscal 2014 increased 13.0% to \$370.9 million, or \$2.66 per diluted share, as compared to net income of \$328.2 million, or \$2.32 per diluted share, in fiscal 2013.

During fiscal 2014, we repurchased approximately 4.7 million shares of the Company's common stock at a total cost of \$298.5 million as part of our previously announced \$2 billion share repurchase program. In fiscal 2013, we repurchased approximately 2.3 million shares at a total cost of \$129.4 million.

Liquidity and Capital Resources

In addition to normal operating expenses, our primary ongoing cash requirements are for new store expansion, remodeling and relocation programs, distribution facilities capacity and improvements, information technology, inventory purchases, share repurchases and cash dividends. Our primary ongoing sources of liquidity are existing cash balances, cash provided from operations, funds available under our credit facility (as discussed in Note 3 to the Consolidated Financial Statements), capital and operating leases and normal trade credit. Our inventory and accounts payable levels typically build in the first and third fiscal quarters to support the higher sales volume of the spring and cold-weather selling seasons, respectively.

Working Capital

At December 26, 2015, the Company had working capital of \$814.1 million, which increased \$143.2 million from December 27, 2014. The shifts in working capital were attributable to changes in the following components of current assets and current liabilities (in millions):

	2015	2014	Variance
Current assets:			
Cash and cash equivalents	\$ 63.8	\$ 51.1	\$ 12.7
Inventories	1,284.4	1,115.5	168.9
Prepaid expenses and other current assets	87.5	66.4	21.1
Income taxes receivable	3.7	—	3.7
Deferred income taxes	46.0	41.0	5.0
Total current assets	1,485.4	1,274.0	211.4
Current liabilities:			
Accounts payable	427.2	370.8	56.4
Accrued employee compensation	42.7	37.1	5.6
Other accrued expenses	195.0	182.6	12.4
Current portion of capital lease obligation	0.9	0.2	0.7
Income taxes payable	5.5	12.4	(6.9)
Total current liabilities	671.3	603.1	68.2
Working capital	\$ 814.1	\$ 670.9	\$ 143.2

In comparison to December 27, 2014, working capital as of December 26, 2015 was impacted most significantly by changes in our inventory and accounts payable.

- We actively manage our inventory balances and in-stock levels at our stores. The increase in inventory was due to new store growth and an increase in average inventory per store of 9.0% compared to the prior year. The increase in average inventory per store is principally related to a carry-over of cold-weather merchandise, additional investment in C.U.E. products and early receipt of certain spring seasonal items.
- Accounts payable increased primarily as a result of new store growth and higher average inventory per store along with timing of payments to vendors.

Borrowings and Credit Facility

During the period of October 24, 2011 through February 19, 2016, the Company was party to a senior credit facility (the “2011 Senior Credit Facility”), which provided for borrowings up to \$400 million (with a sublimit of \$30 million for swingline loans) as of December 26, 2015 and December 27, 2014. The 2011 Senior Credit Facility was unsecured and would have matured on October 24, 2016.

On February 19, 2016, the Company replaced the 2011 Senior Credit Facility by entering into a new senior credit facility (the “2016 Senior Credit Facility”) consisting of a \$200 million term loan and a \$500 million revolving credit facility (with a sublimit of \$50 million for swingline loans). This agreement is unsecured and matures in February 2021, with proceeds available to be used for working capital, capital expenditures, dividends, share repurchases, and other matters. As a result of the maturity date in the new agreement, the Company has presented any outstanding borrowings under the 2011 Senior Credit Facility as of December 26, 2015 as a non-current liability in the Consolidated Balance Sheet in accordance with the applicable accounting guidance.

2011 Senior Credit Facility

At December 26, 2015 there were \$150.0 million in outstanding borrowings under the 2011 Senior Credit Facility and no outstanding borrowings at December 27, 2014. There were \$48.7 million and \$40.7 million outstanding letters of credit under the 2011 Senior Credit Facility as of December 26, 2015 and December 27, 2014, respectively. Borrowings bore interest at either the bank’s base rate (3.50% at December 26, 2015) or the London Inter-Bank Offer Rate (“LIBOR”) (0.42% at December 26, 2015) plus an additional amount ranging from 0.40% to 1.00% per annum (0.50% at December 26, 2015), adjusted quarterly based on our leverage ratio. The Company was also required to pay, quarterly in arrears, a commitment fee for unused capacity ranging from 0.08% to 0.20% per annum (0.10% at December 26, 2015), adjusted quarterly based on the Company’s leverage ratio. There were no compensating balance requirements associated with the 2011 Senior Credit Facility.

The 2011 Senior Credit Facility required quarterly compliance with respect to two material covenants: a fixed charge coverage ratio and a leverage ratio. The fixed charge coverage ratio compared earnings before interest, taxes, depreciation, amortization, stock compensation and rent expense (“consolidated EBITDAR”) to the sum of interest paid and rental expense (excluding any straight-line rent adjustments). The leverage ratio compared total debt plus rental expense (excluding any straight-line rent adjustments) multiplied by a factor of six to consolidated EBITDAR. The 2011 Senior Credit Facility also contained 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. The Company was in compliance with all covenants at December 26, 2015.

2016 Senior Credit Facility

The 2016 Senior Credit Facility contains a \$200 million term loan which requires quarterly payments totaling \$10 million a year in years one and two and \$20 million a year in years three through five, with the remaining balance due in full on the maturity date of February 19, 2021. The 2016 Senior Credit Facility also contains a \$500 million revolving credit facility (with a sublimit of \$50 million for swingline loans).

Borrowings for both the term loan and the revolving credit facility bear interest at either the bank’s base rate or LIBOR plus an additional amount ranging from 0.500% to 1.125% per annum, adjusted quarterly based on our leverage ratio. The Company is also required to pay, quarterly in arrears, a commitment fee for unused capacity ranging from 0.075% to 0.200% per annum, adjusted quarterly based on the Company’s leverage ratio.

Proceeds from the 2016 Senior Credit Facility are available to be used for working capital, capital expenditures, dividends, share repurchases, and other matters. There are no compensating balance requirements associated with the 2016 Senior Credit Facility.

The 2016 Senior Credit Facility requires quarterly compliance with respect to two material covenants: a fixed charge coverage ratio and a leverage ratio. The fixed charge coverage ratio compares consolidated EBITDAR to the sum of interest paid and rental expense (excluding any straight-line rent adjustments). The leverage ratio compares total debt plus rental expense (excluding any straight-line rent adjustments) multiplied by a factor of six to consolidated EBITDAR. The 2016 Senior Credit Facility 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.

Sources and Uses of Cash

Our primary source of liquidity is cash provided by operations and funds available under our credit facility (as discussed in Note 3 to the Consolidated Financial Statements). Principal uses of cash for investing activities are capital expenditures, while principal uses of cash for financing activities are repurchase of the Company's common stock and cash dividends paid to stockholders. The following table presents a summary of cash flows provided by or used in operating, investing and financing activities for the last three fiscal years (in millions):

	2015	2014	2013
Net cash provided by operating activities	\$ 429.2	\$ 409.2	\$ 333.7
Net cash used in investing activities	(235.9)	(160.3)	(209.3)
Net cash used in financing activities	(180.6)	(340.5)	(120.3)
Net increase (decrease) in cash and cash equivalents	\$ 12.7	\$ (91.6)	\$ 4.1

Operating Activities

Operating activities provided net cash of \$429.2 million, \$409.2 million and \$333.7 million in fiscal 2015, 2014 and 2013, respectively. The \$20.0 million increase in net cash provided by operating activities in fiscal 2015 compared to fiscal 2014 was primarily due to changes in the following operating activities (in millions):

	2015	2014	Variance
Net income	\$ 410.4	\$ 370.9	\$ 39.5
Depreciation and amortization	123.6	114.6	9.0
Share-based compensation expense	19.4	16.2	3.2
Excess tax benefit of stock options exercised	(27.0)	(18.8)	(8.2)
Deferred income taxes	(5.5)	(19.8)	14.3
Inventories and accounts payable	(112.5)	(81.8)	(30.7)
Prepaid expenses and other current assets	(21.1)	(9.1)	(12.0)
Accrued expenses	16.9	6.8	10.1
Income taxes	16.3	21.9	(5.6)
Other, net	8.7	8.3	0.4
Net cash provided by operations	\$ 429.2	\$ 409.2	\$ 20.0

The \$20.0 million increase in net cash provided by operating activities in fiscal 2015 compared with fiscal 2014 primarily reflects earnings growth and a favorable impact from the timing of deferred taxes partially offset by a net increase in inventories and accounts payable. Inventory increased due to store growth, the carry-over of cold-weather merchandise, additional investment in C.U.E. products and the timing of spring seasonal receipts while accounts payable grew at a lower rate due mainly to the timing of payments.

The \$75.5 million increase in net cash provided by operations in fiscal 2014 over fiscal 2013 was primarily due to changes in the following operating activities (in millions):

	2014	2013	Variance
Net income	\$ 370.9	\$ 328.2	\$ 42.7
Depreciation and amortization	114.6	100.0	14.6
Stock compensation expense	16.2	13.9	2.3
Excess tax benefit of stock options exercised	(18.8)	(43.5)	24.7
Deferred income taxes	(19.8)	(8.3)	(11.5)
Inventories and accounts payable	(81.8)	(75.1)	(6.7)
Prepaid expenses and other current assets	(9.1)	(5.5)	(3.6)
Accrued expenses	6.8	12.1	(5.3)
Income taxes payable	21.9	9.6	12.3
Other, net	8.3	2.3	6.0
Net cash provided by operations	<u>\$ 409.2</u>	<u>\$ 333.7</u>	<u>\$ 75.5</u>

The \$75.5 million increase in net cash provided by operating activities in fiscal 2014 compared with fiscal 2013 primarily reflects earnings growth, the favorable impacts related to the timing of tax benefits and income tax payments, and increased depreciation and amortization expense due to capital expenditures for store growth, distribution facility capacity and corporate infrastructure.

Investing Activities

Investing activities used cash of \$235.9 million, \$160.3 million and \$209.3 million in fiscal 2015, 2014 and 2013, respectively. The changes in cash used for investing activities primarily reflects changes in capital expenditures. Capital expenditures for fiscal 2015, 2014 and 2013 were as follows (in millions):

	2015	2014	2013
New and relocated stores and stores not yet opened	\$ 96.7	\$ 80.8	\$ 69.1
Distribution center capacity and improvements	80.2	9.2	44.9
Information technology	35.8	22.7	29.8
Existing stores	23.1	20.0	22.3
Corporate and other	0.7	27.9	40.7
Purchase of previously leased stores	—	—	11.4
Total capital expenditures	<u>\$ 236.5</u>	<u>\$ 160.6</u>	<u>\$ 218.2</u>

The above table reflects 114 new stores and six relocations during fiscal 2015, 107 new stores and two relocations during fiscal 2014 and 102 new stores and three relocations during fiscal 2013. The increase in spending on distribution center capacity and improvements in fiscal 2015 is primarily due to the construction of two mixing centers in Texas which opened during the third quarter and our new southwest distribution center in Casa Grande, Arizona which began shipping merchandise to stores in the fourth quarter. The increase in spending on information technology in fiscal 2015 represents continued improvements in data security and enhanced customer relationship management.

The majority of the corporate and other category for fiscal 2014 and 2013 relates to construction of our Store Support Center in Brentwood, Tennessee with the greatest portion of the spend in fiscal 2013. The higher capital expenditures for distribution facility capacity and improvements in fiscal 2013 compared to fiscal 2014 was primarily due to construction of our Macon, Georgia distribution center, which was the relocation of our former leased Southeast distribution center in Braselton, Georgia. We did not purchase any leased stores during fiscal 2015 or fiscal 2014 compared to having purchased three leased stores in fiscal 2013.

We currently estimate that capital expenditures will range between \$230 million and \$250 million in fiscal 2016.

- We plan to open approximately 115 to 120 stores in fiscal 2016. Additionally, we plan to relocate five stores as well as increase our investment in existing store renovations.
- We plan to invest in our ongoing sustainability efforts by beginning to retrofit our stores with LED lighting in fiscal 2016.
- We also plan to invest in information technology for improvements in security and compliance and continued support of our growth strategy and other strategic investments.

Financing Activities

Financing activities used cash of \$180.6 million, \$340.5 million, and \$120.3 million in fiscal 2015, 2014 and 2013, respectively. The net cash used in financing activities in fiscal 2015 was mainly the result of repurchases of common stock and quarterly cash dividends paid to stockholders, partially offset by borrowings under the 2011 Senior Credit Facility, net proceeds from issuance of common stock related to share-based compensation, and excess tax benefits recognized on stock options exercised. The decrease in net cash used in financing activities in fiscal 2015 compared to fiscal 2014 is largely due to \$150 million of net borrowings under the 2011 Senior Credit Facility.

The Company's Board of Directors has authorized common stock repurchases under the share repurchase program up to \$2 billion, exclusive of any fees, commissions, or other expenses related to such repurchases, through December 2017. 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 are accounted for at cost and will be held in treasury for future issuance. The program may be limited or terminated at any time without prior notice.

We repurchased approximately 3.4 million, 4.7 million and 2.3 million shares of common stock under the share repurchase program at a total cost of \$292.7 million, \$298.5 million and \$129.4 million in fiscal 2015, 2014 and 2013, respectively. As of December 26, 2015, we had remaining authorization under the share repurchase program of \$570.7 million, exclusive of any fees, commissions, or other expenses.

In the second quarter of fiscal 2015, we increased our quarterly dividend from \$0.16 per share to \$0.20 per share and, in the second quarter of fiscal 2014, we increased our quarterly dividend from \$0.13 per share to \$0.16 per share. We paid dividends totaling \$103.1 million, \$84.1 million and \$68.5 million in fiscal 2015, 2014 and 2013, respectively.

We believe that our existing cash balances, expected cash flow from future operations, funds available under our credit facility, operating and capital leases and normal trade credit will be sufficient to fund our operations and our capital expenditure needs, including new store openings, store acquisitions, relocations and renovations and distribution facility capacity, through the end of fiscal 2016.

Significant Contractual Obligations and Commercial Commitments

The following table reflects our future obligations and commitments as of December 26, 2015 (in thousands):

	Payment Due by Period				
	Total	2016	2017-2018	2019-2020	Thereafter
Operating leases	\$ 2,299,493	\$ 265,327	\$ 507,611	\$ 455,560	\$ 1,070,995
Capital leases ^(a)	26,093	1,876	3,752	3,752	16,713
Revolving credit loan	150,000	—	—	—	150,000
	<u>\$ 2,475,586</u>	<u>\$ 267,203</u>	<u>\$ 511,363</u>	<u>\$ 459,312</u>	<u>\$ 1,237,708</u>

^(a) Capital lease obligations include related interest.

At December 26, 2015, there were \$48.7 million outstanding letters of credit under the 2011 Senior Credit Facility.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements are limited to operating leases and outstanding letters of credit. The balances for these arrangements are previously discussed. We typically lease buildings for retail stores rather than acquiring these assets through purchases. Letters of credit allow us to purchase inventory, primarily sourced overseas, in a timely manner and support certain risk management programs.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” which implemented a one-year deferral of ASU 2014-09. As a result of the deferral, the amendments in ASU 2014-09 are effective for reporting periods beginning after December 15, 2017. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Management is currently assessing the impact the adoption of ASU 2014-09 will have on our Consolidated Financial Statements and related disclosures, including which transition method it will adopt.

In April 2015, the FASB issued ASU 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). This update requires that debt issuance costs related to a recognized debt liability be presented in the consolidated balance sheet as a direct reduction from the carrying amount of that debt liability. ASU 2015-03 requires retrospective application and is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company does not expect that the adoption of this guidance will have a material impact on our Consolidated Financial Statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”). This update requires an entity that determines the cost of inventory by methods other than last-in, first-out and the retail inventory method to measure inventory at the lower of cost and net realizable value. ASU 2015-11 requires prospective application and is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company does not expect that the adoption of this guidance will have a material impact on our Consolidated Financial Statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). This update requires that deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. ASU 2015-17 may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. Upon adoption, the updated guidance will affect the presentation of the deferred tax liabilities and assets within the Company’s Consolidated Balance Sheet; however, the updated guidance will not affect the accounting for deferred tax liabilities and assets. Other than the change in presentation, the Company does not expect that the adoption of this guidance will have a material impact on our Consolidated Financial Statements and related disclosures.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to interest rate changes, primarily as a result of our credit facility (as discussed in Note 3 to the Consolidated Financial Statements) which bears interest based on variable rates.

A 1% change in interest rates on our variable rate debt would have affected interest expense by approximately \$1.1 million, \$0.7 million, and \$0.3 million in the fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013. On a prospective basis, a 1% change in interest rates on debt existing as of December 26, 2015, would result in interest expense fluctuating approximately \$1.5 million per year.

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, grain, corn, steel, petroleum, cotton and other commodities as well as transportation services. Therefore, we may experience both inflationary and deflationary pressure on product cost, which may impact consumer demand and, as a result, sales and gross margin. Our strategy is to reduce or mitigate the effects of purchase price volatility principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases, adjusting retail prices and selectively buying from the most competitive vendors without sacrificing quality.

Item 8. **Financial Statements and Supplementary Data**

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TRACTOR SUPPLY COMPANY

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934, as amended). 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, 2015. In making this assessment, management used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on this assessment, management believes that, as of December 26, 2015, 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.

/s/ Gregory A. Sandfort

Gregory A. Sandfort
President and Chief Executive Officer

February 22, 2016

/s/ Anthony F. Crudele

Anthony F. Crudele
Executive Vice President -
Chief Financial Officer and Treasurer

February 22, 2016

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, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (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, 2015, 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, 2015 and December 27, 2014, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three fiscal years in the period ended December 26, 2015, and our report dated February 22, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 22, 2016

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, 2015 and December 27, 2014, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three fiscal years in the period ended December 26, 2015. 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, 2015 and December 27, 2014, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended December 26, 2015, 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, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 22, 2016

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

	Fiscal Year		
	2015	2014	2013
Net sales	\$ 6,226,507	\$ 5,711,715	\$ 5,164,784
Cost of merchandise sold	4,083,333	3,761,300	3,411,175
Gross profit	2,143,174	1,950,415	1,753,609
Selling, general and administrative expenses	1,369,097	1,246,308	1,138,934
Depreciation and amortization	123,569	114,635	100,025
Operating income	650,508	589,472	514,650
Interest expense, net	2,891	1,885	557
Income before income taxes	647,617	587,587	514,093
Income tax expense	237,222	216,702	185,859
Net income	<u>\$ 410,395</u>	<u>\$ 370,885</u>	<u>\$ 328,234</u>
Net income per share – basic	<u>\$ 3.03</u>	<u>\$ 2.69</u>	<u>\$ 2.35</u>
Net income per share – diluted	<u>\$ 3.00</u>	<u>\$ 2.66</u>	<u>\$ 2.32</u>
Weighted average shares outstanding			
Basic	135,582	137,769	139,415
Diluted	136,845	139,435	141,723
Dividends declared per common share outstanding	<u>\$ 0.76</u>	<u>\$ 0.61</u>	<u>\$ 0.49</u>

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

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

	<u>December 26, 2015</u>	<u>December 27, 2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 63,813	\$ 51,134
Inventories	1,284,375	1,115,450
Prepaid expenses and other current assets	87,510	66,444
Income taxes receivable	3,763	—
Deferred income taxes	45,970	40,962
Total current assets	<u>1,485,431</u>	<u>1,273,990</u>
Property and equipment:		
Land	86,991	79,571
Buildings and improvements	814,802	698,462
Furniture, fixtures and equipment	523,383	453,692
Computer software and hardware	180,020	154,818
Construction in progress	38,720	30,803
Property and equipment, gross	1,643,916	1,417,346
Accumulated depreciation and amortization	<u>(796,340)</u>	<u>(696,346)</u>
Property and equipment, net	847,576	721,000
Goodwill	10,258	10,258
Deferred income taxes	9,224	8,782
Other assets	<u>18,337</u>	<u>20,541</u>
Total assets	<u>\$ 2,370,826</u>	<u>\$ 2,034,571</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 427,249	\$ 370,823
Accrued employee compensation	42,684	37,056
Other accrued expenses	195,024	182,565
Current portion of capital lease obligations	878	213
Income taxes payable	<u>5,449</u>	<u>12,436</u>
Total current liabilities	671,284	603,093
Revolving credit loan	150,000	—
Capital lease obligations, less current maturities	16,992	4,957
Deferred rent	84,793	79,807
Other long-term liabilities	<u>54,463</u>	<u>53,153</u>
Total liabilities	<u>977,532</u>	<u>741,010</u>
Stockholders' equity:		
Preferred Stock, \$1.00 par value; 40 shares authorized; no shares issued	—	—
Common Stock, \$0.008 par value; 400,000 shares authorized at December 26, 2015 and December 27, 2014; 168,974 shares issued and 134,224 shares outstanding at December 26, 2015 and 167,716 shares issued and 136,382 shares outstanding at December 27, 2014	1,352	1,342
Additional paid-in capital	596,131	510,997
Treasury stock, at cost, 34,750 shares at December 26, 2015 and 31,334 shares at December 27, 2014	<u>(1,429,790)</u>	<u>(1,137,085)</u>
Retained earnings	2,225,601	1,918,307
Total stockholders' equity	<u>1,393,294</u>	<u>1,293,561</u>
Total liabilities and stockholders' equity	<u>\$ 2,370,826</u>	<u>\$ 2,034,571</u>

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

TRACTOR SUPPLY COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Stockholders' equity at December 29, 2012	\$ 1,307	\$ 361,106	\$ (709,172)	\$ 1,371,733	\$ 1,024,974
Issuance of common stock under employee stock purchase plan (87 shares)	1	3,595			3,596
Exercise of stock options (2,681 shares) and restricted stock units (166 shares)	23	34,699			34,722
Stock compensation		13,893			13,893
Tax benefit of stock options exercised		43,517			43,517
Repurchase of shares to satisfy tax obligations		(4,142)			(4,142)
Repurchase of common stock (2,287 shares)			(129,416)		(129,416)
Dividends paid				(68,484)	(68,484)
Net income				328,234	328,234
Stockholders' equity at December 28, 2013	1,331	452,668	(838,588)	1,631,483	1,246,894
Issuance of common stock under employee stock purchase plan (79 shares)	1	4,326			4,327
Exercise of stock options (1,179 shares) and restricted stock units (135 shares)	10	23,746			23,756
Stock compensation		16,173			16,173
Tax benefit of stock options exercised		18,850			18,850
Repurchase of shares to satisfy tax obligations		(4,766)			(4,766)
Repurchase of common stock (4,664 shares)			(298,497)		(298,497)
Dividends paid				(84,061)	(84,061)
Net income				370,885	370,885
Stockholders' equity at December 27, 2014	1,342	510,997	(1,137,085)	1,918,307	1,293,561
Issuance of common stock under employee stock purchase plan (68 shares)	1	4,709			4,710
Exercise of stock options (1,117 shares) and restricted stock units (72 shares)	9	36,970			36,979
Stock compensation		19,420			19,420
Tax benefit of stock options exercised		27,032			27,032
Repurchase of shares to satisfy tax obligations		(2,997)			(2,997)
Repurchase of common stock (3,416 shares)			(292,705)		(292,705)
Dividends paid				(103,101)	(103,101)
Net income				410,395	410,395
Stockholders' equity at December 26, 2015	\$ 1,352	\$ 596,131	\$ (1,429,790)	\$ 2,225,601	\$ 1,393,294

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

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

	Fiscal Year		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$ 410,395	\$ 370,885	\$ 328,234
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	123,569	114,635	100,025
Loss on disposition of property and equipment	315	389	35
Share-based compensation expense	19,420	16,173	13,893
Excess tax benefit of stock options exercised	(27,032)	(18,850)	(43,517)
Deferred income taxes	(5,450)	(19,814)	(8,309)
Change in assets and liabilities:			
Inventories	(168,925)	(136,142)	(71,192)
Prepaid expenses and other current assets	(21,066)	(9,085)	(5,551)
Accounts payable	56,426	54,336	(3,905)
Accrued employee compensation	5,628	(13,517)	2,173
Other accrued expenses	11,252	20,365	9,938
Income taxes	16,282	21,862	9,582
Other	8,366	7,941	2,275
Net cash provided by operating activities	429,180	409,178	333,681
Cash flows from investing activities:			
Capital expenditures	(236,496)	(160,613)	(218,200)
Proceeds from sale of property and equipment	584	331	477
Decrease in restricted cash	—	—	8,400
Net cash used in investing activities	(235,912)	(160,282)	(209,323)
Cash flows from financing activities:			
Borrowings under revolving credit agreement	680,000	355,000	185,000
Repayments under revolving credit agreement	(530,000)	(355,000)	(185,000)
Excess tax benefit of stock options exercised	27,032	18,850	43,517
Principal payments under capital lease obligations	(507)	(114)	(38)
Repurchase of shares to satisfy tax obligations	(2,997)	(4,766)	(4,142)
Repurchase of common stock	(292,705)	(298,497)	(129,416)
Net proceeds from issuance of common stock	41,689	28,083	38,318
Cash dividends paid to stockholders	(103,101)	(84,061)	(68,484)
Net cash used in financing activities	(180,589)	(340,505)	(120,245)
Net change in cash and cash equivalents	12,679	(91,609)	4,113
Cash and cash equivalents at beginning of year	51,134	142,743	138,630
Cash and cash equivalents at end of year	<u>\$ 63,813</u>	<u>\$ 51,134</u>	<u>\$ 142,743</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 2,283	\$ 906	\$ 780
Income taxes	226,968	213,637	188,003
Supplemental disclosures of non-cash activities:			
Property and equipment acquired through capital lease	\$ 13,207	\$ 4,042	\$ —
Non-cash accruals for construction in progress	16,050	14,843	8,258

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

TRACTOR SUPPLY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Significant Accounting Policies:

Nature of Business

Tractor Supply Company is the largest operator of rural lifestyle retail stores in the United States. The Company is focused on supplying the needs of recreational farmers and ranchers and those who enjoy the rural lifestyle, as well as tradesmen and small businesses. Stores are located primarily in towns outlying major metropolitan markets and in rural communities. At December 26, 2015, the Company operated a total of 1,488 retail stores in 49 states and also offered a number of products online at TractorSupply.com.

Fiscal Year

The Company's fiscal year includes 52 or 53 weeks and ends on the last Saturday of the calendar year. The fiscal years ended December 26, 2015, December 27, 2014, and December 28, 2013 consisted of 52 weeks.

Principles of Consolidation

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

Management Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States inherently requires estimates and assumptions by management of the Company 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:

Inventory Valuation

Inventory Impairment Risk

The Company identifies 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 Company has established an inventory valuation reserve to recognize the estimated impairment in value (i.e. an inability to realize the full carrying value) based on the Company's aggregate assessment of these valuation indicators under prevailing market conditions and current merchandising strategies. The Company does not believe its 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

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

Vendor Funding

The Company receives funding from substantially all of its significant merchandise vendors, in support of its business initiatives, through a variety of programs and arrangements, including guaranteed vendor support funds ("vendor support") and volume-based rebate funds ("volume rebates"). The amounts received are subject to terms of vendor agreements, most of which are "evergreen", reflecting the on-going relationship with our significant merchandise vendors. Certain of the Company's agreements, primarily volume rebates, are renegotiated annually, 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 interim periods, the amount of vendor support and volume rebates are estimated based upon initial commitments and anticipated purchase levels with applicable vendors. The estimated purchase volume (and related vendor funding) is based on the Company's current knowledge of inventory levels, sales trends and expected customer demand, as well as planned new store openings and relocations. Although the Company believes it can reasonably estimate purchase volume and related volume rebates at interim periods, it is possible that actual year-end results could be different from previously estimated amounts.

Freight

The Company incurs 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.

Self-Insurance Reserves

The Company self-insures a significant portion of its employee medical insurance, workers' compensation insurance and general liability (including product liability) insurance plans. The Company has stop-loss insurance policies to protect it from individual losses over specified dollar values. For self-insured employee medical claims, we have a stop loss limit of \$300,000 per person per year. Our deductible or self-insured retention, as applicable, for each claim involving workers' compensation insurance and general liability insurance is limited to \$500,000 and our Texas Work Injury Policy is limited to \$750,000. Further, we maintain a commercially reasonable umbrella/excess policy that covers liabilities in excess of the primary insurance policy limits.

The full extent of certain claims, especially workers' compensation and general liability claims, may not become fully determined for several years. Therefore, the Company estimates potential obligations based upon historical claims experience, industry factors, severity factors and other actuarial assumptions. Although the Company believes the reserves established for these obligations are reasonably estimated, any significant change in the number of claims or costs associated with claims made under these plans could have a material effect on the Company's financial results. At December 26, 2015, the Company had recorded net insurance reserves of \$51.2 million compared to \$48.3 million at December 27, 2014.

Sales Tax Audit Reserve

A portion of the Company's sales are to tax-exempt customers, predominantly agricultural-based. The Company obtains exemption information as a necessary part of each tax-exempt transaction. Many of the states in which the Company conducts business will perform audits to verify the Company's compliance with applicable sales tax laws. The business activities of the Company's customers and the intended use of the unique products sold by the Company create a challenging and complex tax compliance environment. These circumstances also create some risk that the Company could be challenged as to the accuracy of the Company's sales tax compliance.

The Company reviews past audit experience and assessments with applicable states to continually determine if it has potential exposure for non-compliance. Any estimated liability is based on an initial assessment of compliance risk and historical experience with each state. The Company continually reassesses the exposure based on historical audit results, changes in policies, preliminary and final assessments made by state sales tax auditors, and 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, the 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

The Company's income tax returns are periodically audited by U.S. federal and state tax authorities. These audits include questions regarding 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 the Company's various tax filing positions, the Company records a liability for uncertain tax positions taken or expected to be taken in a tax return. A number of years may elapse before a particular matter, for which the Company has established a reserve, is audited and fully resolved or clarified. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company adjusts its tax contingencies reserve and income tax provision in the period in which actual results of a settlement with tax authorities differs from the established reserve, the statute of limitations expires for the relevant tax authority to examine the tax position or when more information becomes available.

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

The 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.

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, the Company first compares 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, the Company calculates 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. The Company recognizes an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If the Company recognizes 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 estimated useful life of that asset.

No significant impairment charges were recognized in fiscal 2015, 2014 and 2013. Impairment charges are included in selling, general and administrative ("SG&A") expenses in the Consolidated Statements of Income.

Revenue Recognition and Sales Returns

The Company recognizes revenue at the time the customer takes possession of merchandise. If the Company receives payment before completion of its customer obligations (as per the Company's special order and layaway programs), the revenue is deferred until the customer takes possession of the merchandise and the sale is complete.

The Company is 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. The Company records a liability upon collection from the customer and relieves the liability when payments are remitted to the applicable governmental agency.

The Company estimates a liability for sales returns based on a rolling average of historical return trends, and the Company believes that its estimate for sales returns is an accurate reflection of future returns associated with past sales. However, as with any estimate, refund activity may vary from estimated amounts. At December 26, 2015, the Company had a liability of \$3.3 million reserved for sales returns compared to \$3.2 million at December 27, 2014.

The Company recognizes revenue when a gift card or merchandise return card is redeemed by the customer and recognizes income when the likelihood of the gift card or merchandise return card being redeemed by the customer is remote (referred to as "breakage"). The gift cards and merchandise return card breakage rate is based upon historical redemption patterns and income is recognized for unredeemed gift cards and merchandise return cards in proportion to those historical redemption patterns. The Company recognized breakage income of \$1.6 million, \$0.9 million and \$1.6 million in fiscal 2015, 2014 and 2013, respectively.

Cost of Merchandise Sold

Cost of merchandise sold includes the total cost of products sold; freight expenses associated with moving merchandise inventories from vendors to distribution facilities, from distribution facilities to retail stores, and from one distribution facility 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 net realizable value, slow moving product and excess inventory quantities.

Selling, General and Administrative Expenses

SG&A expenses include payroll and benefit costs for retail, distribution facility and corporate employees; occupancy costs of retail, distribution 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.

Advertising Costs

Advertising costs consist of expenses incurred in connection with newspaper circulars and customer-targeted direct mail, as well as limited television, radio 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 2015, 2014 and 2013 were approximately \$73.9 million, \$70.4 million and \$65.6 million, respectively. Prepaid advertising costs were approximately \$1.6 million and \$0.5 million at December 26, 2015 and December 27, 2014, respectively.

Warehousing and Distribution Facility Costs

Costs incurred at the Company's distribution facilities 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 facility costs including depreciation for fiscal 2015, 2014 and 2013 were approximately \$145.4 million, \$121.1 million and \$111.3 million, respectively.

Pre-opening Costs

Non-capital expenditures incurred in connection with opening new stores, primarily payroll and rent, are expensed as incurred. Pre-opening costs were approximately \$9.6 million, \$8.9 million and \$7.8 million in fiscal 2015, 2014 and 2013, respectively.

Share-Based Compensation

The Company has share-based compensation plans covering certain members of management and non-employee directors, which include incentive and non-qualified stock options and restricted stock units. In addition, the Company offers an Employee Stock Purchase Plan ("ESPP") to most employees that work at least 20 hours per week.

The Company estimates the fair value of its stock option awards at the date of grant utilizing a *Black-Scholes* option pricing model. The *Black-Scholes* option valuation model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. However, key assumptions used in the *Black-Scholes* model are adjusted to incorporate the unique characteristics of the Company's stock option awards. Option pricing models and generally accepted valuation techniques require management to make subjective assumptions including expected stock price volatility, expected dividend yield, risk-free interest rate and expected life. The Company relies on a blended volatility approach, weighting historical volatility trends and implied volatility, 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 term of the option on the date of grant was estimated based on the Company's 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. The Company adjusts this estimate periodically, based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

The fair value of the Company's restricted stock unit awards is the closing price of the Company's common stock the day preceding the grant date.

The Company believes its 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.

Depreciation and Amortization

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

Income Taxes

The Company uses the asset and liability method to account for income taxes whereby deferred tax assets and liabilities are determined based on differences between the financial carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that are anticipated to be in effect when temporary differences reverse or are settled. The effect of a tax rate change is recognized in the period in which the law is enacted in the provision for income taxes. The Company records a valuation allowance when it is more likely than not that a deferred tax asset will not be realized.

Net Income Per Share

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

Comprehensive Income

The Company's comprehensive income is equal to net income in fiscal 2015, 2014 and 2013.

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 cards are classified as cash and cash equivalents, as they generally settle within 24-48 hours.

Sales generated through the Company's private label credit cards are not reflected as accounts receivable. Under an agreement with Citi Cards, a division of 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. Payments due from Citigroup are classified as cash and cash equivalents as they generally settle within 24-48 hours.

Fair Value of Financial Instruments

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

The Company's financial instruments consist of cash and cash equivalents, short-term receivables, trade payables and long-term debt instruments. Due to their short-term nature, the carrying values of cash and cash equivalents, short-term receivables and trade payables approximate current fair value at each balance sheet date. The Company had \$150.0 million in borrowings under the 2011 Senior Credit Facility (as defined in Note 3) at December 26, 2015 and no borrowings as of December 27, 2014. Based on current market interest rates (Level 2 inputs), the carrying value of our borrowings under the 2011 Senior Credit Facility approximates fair value as of December 26, 2015.

Inventories

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

Property and Equipment

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

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

The Company entered into agreements with various governmental entities in the states of Kentucky, Georgia and Tennessee to implement tax abatement plans related to its distribution center in Franklin, Kentucky (Simpson County), its distribution center in Macon, Georgia (Bibb County) and its Store Support Center in Brentwood, Tennessee (Williamson County). The tax abatement plans provide for reduction of real property taxes for specified time frames by legally transferring title to its real property in exchange for industrial revenue bonds. This property was then leased back to the Company. No cash was exchanged.

The lease payments are equal to the amount of the payments on the bonds. The tax abatement period extends through the term of the lease, which coincides with the maturity date of the bonds. At any time, the Company has the option to purchase the real property by paying off the bonds, plus \$1. The terms and amounts authorized and drawn under each industrial revenue bond agreement are outlined as follows, as of December 26, 2015:

	Bond Term	Bond Authorized Amount (in millions)	Amount Drawn (in millions)
Franklin, Kentucky Distribution Center	30 years	\$ 54.0	\$ 51.8
Macon, Georgia Distribution Center	15 years	\$ 58.0	\$ 49.9
Brentwood, Tennessee Store Support Center	10 years	\$ 78.0	\$ 75.3

Due to the form of these transactions, the Company has not recorded the bonds or the lease obligation associated with the sale lease-back transaction. The original cost of the Company's property and equipment is recorded on the balance sheet and is being depreciated over its estimated useful life.

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. Computer software consists primarily of third-party software purchased for internal use. A subsequent addition, modification or upgrade to internal-use software is capitalized to the extent that it enhances the software's functionality or extends its useful life. 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.

Goodwill

All goodwill is associated with the Company as a whole. Goodwill is not amortized, but is evaluated for impairment annually and whenever events or changes in circumstances indicate the carrying value of the goodwill may not be recoverable. The Company completes its impairment evaluation by performing internal valuation analyses and considering other publicly available market information, as appropriate.

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 the Company's operations.

In the fourth quarter of fiscal 2015, the Company completed its annual impairment testing of goodwill and no impairment was identified. The Company determined that the fair value of the reporting unit (including goodwill) was in excess of the carrying value of the reporting unit and as such, the second step was not necessary. In reaching this conclusion, the fair value of the reporting unit was determined based on a market approach. Under the market approach, the fair value is based on observed market prices.

Store Closing Costs

The Company regularly evaluates the performance of its stores and periodically closes those that are under-performing. The Company records a liability for costs 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.

Leases

Assets under capital leases are amortized in accordance with the Company's 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 operating leases include rent increases during the lease term. For these leases, the Company recognizes 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 records the difference between the expense charged to operations and amounts paid as a deferred rent liability.

The Company occasionally receives reimbursements from landlords to be used towards improving the related store to be leased. Leasehold improvements are recorded at their gross costs including items reimbursed by landlords. Related reimbursements are deferred and amortized on a straight-line basis as a reduction of rent expense over the applicable lease term.

Note 2 - Share-Based Compensation:

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

There were no significant modifications to the Company's share-based compensation plans during fiscal 2015. At December 26, 2015, the Company had approximately 4.8 million shares available for future equity awards under the Company's 2009 Stock Incentive Plan.

Share-based compensation expense, including changes in expense for modifications of awards, was \$19.4 million, \$16.2 million and \$13.9 million for fiscal 2015, 2014 and 2013, respectively.

Stock Options

Under the Company's 2009 Stock Incentive Plan, options may be granted to current or prospective officers or employees, non-employee directors and consultants. 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. Vesting of options commences at various anniversary dates following the dates of grant.

The fair value is separately estimated for each option grant. The fair value of each option is recognized as compensation expense ratably over the vesting period. The Company has 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 ranges of key assumptions used in determining the fair value of options granted during fiscal 2015, 2014 and 2013, as well as a summary of the methodology applied to develop each assumption, are as follows:

	Fiscal Year		
	2015	2014	2013
Expected price volatility	27.3 – 28.8%	28.0 – 29.3%	30.7 – 35.4%
Risk-free interest rate	1.2 – 1.5%	1.1 – 1.3%	0.6 – 1.2%
Weighted average expected lives (in years)	4.5	4.5	4.7
Forfeiture rate	6.9%	6.9%	7.0%
Dividend yield	1.0%	0.8%	0.8%

Expected Price Volatility — This is a measure of the amount by which a price has fluctuated or is expected to fluctuate. The Company uses a blended volatility approach, weighting (i) actual historical changes in the market value of the stock at 75% and (ii) average implied volatility using tradable option data at 25%. To calculate historical changes in market value, the Company uses 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. To derive implied volatility, the Company relies on publicly traded options, with maturities of six months or greater. The Company believes this blended calculation of historical and expected price volatility provides the most relevant indicator of future 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 canceled before becoming fully vested. This estimate is based on historical experience. An increase in the forfeiture rate will decrease compensation expense.

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

The Company issues shares for options when exercised. A summary of stock option activity is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding December 29, 2012	6,060,382	\$ 19.48		6.6	\$ 147,229
Granted	1,027,251	51.87	\$ 14.67		
Exercised	(2,681,225)	12.95			
Canceled	(97,360)	43.27			
Outstanding December 28, 2013	4,309,048	\$ 30.72		7.1	\$ 193,123
Granted	1,167,060	64.08	\$ 15.36		
Exercised	(1,179,175)	20.15			
Canceled	(213,507)	57.14			
Outstanding December 27, 2014	4,083,426	\$ 41.93		7.2	\$ 146,967
Granted	1,080,490	83.70	\$ 19.53		
Exercised	(1,116,828)	33.11			
Canceled	(185,582)	67.28			
Outstanding December 26, 2015	3,861,506	\$ 54.95		7.1	\$ 119,050
Exercisable at December 26, 2015	1,965,084	\$ 37.53		5.8	\$ 94,598

The aggregate intrinsic values in the table above represent the total difference between the Company's 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, 2015, total unrecognized compensation expense related to non-vested stock options was approximately \$20.5 million with a weighted average expense recognition period of 1.3 years.

There were no material modifications to options in fiscal 2015, 2014 or 2013.

Other information relative to option activity during fiscal 2015, 2014 and 2013 is as follows (in thousands):

	2015	2014	2013
Total fair value of stock options vested	\$ 13,207	\$ 10,855	\$ 10,535
Total intrinsic value of stock options exercised	\$ 60,082	\$ 60,656	\$ 122,621

Restricted Stock Units

The Company issues shares for restricted stock unit awards once vesting occurs and related restrictions lapse. The units vest over a one- to four-year term; some plan participants have elected to defer receipt of shares of common stock upon vesting of restricted stock units, and as a result, shares are not issued until a later date. The status of restricted stock units is presented below:

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value
Restricted at December 29, 2012	603,394	\$ 18.76
Granted	59,864	51.72
Exercised	(244,462)	14.00
Forfeited	(5,638)	36.24
Restricted at December 28, 2013	413,158	\$ 26.12
Granted	97,817	70.09
Exercised	(212,156)	21.91
Forfeited	(21,472)	54.54
Restricted at December 27, 2014	277,347	\$ 42.64
Granted	56,052	84.86
Exercised	(107,548)	25.97
Forfeited	(6,234)	63.57
Restricted at December 26, 2015	219,617	\$ 60.99

Other information relative to restricted stock unit activity during fiscal 2015, 2014 and 2013 is as follows (in thousands):

	2015	2014	2013
Total grant date fair value of restricted stock units vested and issued	\$ 2,793	\$ 4,647	\$ 3,422
Total intrinsic value of restricted stock units vested and issued	\$ 9,139	\$ 13,205	\$ 12,876

For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of shares withheld by the Company for the minimum statutory tax withholding requirements, which the Company pays on behalf of its employees. The Company issued 72,206, 134,964, and 165,519 shares as a result of vested restricted stock units during fiscal 2015, 2014 and 2013, respectively. Although shares withheld are not issued, they are treated similar to common stock repurchases as they reduce the number of shares that would have been issued upon vesting. The amounts are net of 35,342, 77,192, and 78,943 shares withheld to satisfy \$3.0 million, \$4.8 million, and \$4.1 million of employees' tax obligations during fiscal 2015, 2014 and 2013, respectively.

There were no material modifications to restricted stock units in fiscal 2015, 2014 or 2013.

As of December 26, 2015, total unrecognized compensation expense related to non-vested restricted stock units was approximately \$6.5 million with a weighted average expense recognition period of 2.2 years.

Employee Stock Purchase Plan

The ESPP provides Company employees the opportunity to purchase, through payroll deductions, shares of common stock at a 15% discount. Pursuant to the terms of the ESPP, the Company issued 68,428, 78,670 and 86,555 shares of common stock during fiscal 2015, 2014 and 2013, respectively. The total cost related to the ESPP, including the compensation expense calculations, was approximately \$1.1 million, \$1.0 million and \$0.9 million in fiscal 2015, 2014 and 2013, respectively. There are a maximum of 16.0 million shares of common stock that are reserved under the ESPP. At December 26, 2015, there were approximately 12.2 million remaining shares of common stock reserved for future issuance under the ESPP.

Note 3 - Senior Credit Facility:

During the period of October 24, 2011 through February 19, 2016, the Company was party to a senior credit facility (the “2011 Senior Credit Facility”), which provided for borrowings up to \$400 million (with a sublimit of \$30 million for swingline loans) as of December 26, 2015 and December 27, 2014. The 2011 Senior Credit Facility was unsecured and would have matured on October 24, 2016.

On February 19, 2016, the Company replaced the 2011 Senior Credit Facility by entering into a new senior credit facility (the “2016 Senior Credit Facility”) consisting of a \$200 million term loan and a \$500 million revolving credit facility (with a sublimit of \$50 million for swingline loans). This agreement is unsecured and matures in February 2021, with proceeds available to be used for working capital, capital expenditures, dividends, share repurchases, and other matters. As a result of the maturity date in the new agreement, the Company has presented any outstanding borrowings under the 2011 Senior Credit Facility as of December 26, 2015 as a non-current liability in the Consolidated Balance Sheet in accordance with the applicable accounting guidance.

2011 Senior Credit Facility

At December 26, 2015 there were \$150.0 million in outstanding borrowings under the 2011 Senior Credit Facility and no outstanding borrowings at December 27, 2014. There were \$48.7 million and \$40.7 million outstanding letters of credit under the 2011 Senior Credit Facility as of December 26, 2015 and December 27, 2014, respectively. Borrowings bore interest at either the bank’s base rate (3.50% at December 26, 2015) or the London Inter-Bank Offer Rate (“LIBOR”) (0.42% at December 26, 2015) plus an additional amount ranging from 0.40% to 1.00% per annum (0.50% at December 26, 2015), adjusted quarterly based on our leverage ratio. The Company was also required to pay, quarterly in arrears, a commitment fee for unused capacity ranging from 0.08% to 0.20% per annum (0.10% at December 26, 2015), adjusted quarterly based on the Company’s leverage ratio. There were no compensating balance requirements associated with the 2011 Senior Credit Facility.

The 2011 Senior Credit Facility required quarterly compliance with respect to two material covenants: a fixed charge coverage ratio and a leverage ratio. The fixed charge coverage ratio compared earnings before interest, taxes, depreciation, amortization, stock compensation and rent expense (“consolidated EBITDAR”) to the sum of interest paid and rental expense (excluding any straight-line rent adjustments). The leverage ratio compared total debt plus rental expense (excluding any straight-line rent adjustments) multiplied by a factor of six to consolidated EBITDAR. The 2011 Senior Credit Facility also contained 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. The Company was in compliance with all covenants at December 26, 2015.

2016 Senior Credit Facility

The 2016 Senior Credit Facility contains a \$200 million term loan which requires quarterly payments totaling \$10 million a year in years one and two and \$20 million a year in years three through five, with the remaining balance due in full on the maturity date of February 19, 2021. The 2016 Senior Credit Facility also contains a \$500 million revolving credit facility (with a sublimit of \$50 million for swingline loans).

Borrowings for both the term loan and the revolving credit facility bear interest at either the bank’s base rate or LIBOR plus an additional amount ranging from 0.500% to 1.125% per annum, adjusted quarterly based on our leverage ratio. The Company is also required to pay, quarterly in arrears, a commitment fee for unused capacity ranging from 0.075% to 0.200% per annum, adjusted quarterly based on the Company’s leverage ratio.

Proceeds from the 2016 Senior Credit Facility are available to be used for working capital, capital expenditures, dividends, share repurchases, and other matters. There are no compensating balance requirements associated with the 2016 Senior Credit Facility.

The 2016 Senior Credit Facility requires quarterly compliance with respect to two material covenants: a fixed charge coverage ratio and a leverage ratio. The fixed charge coverage ratio compares consolidated EBITDAR to the sum of interest paid and rental expense (excluding any straight-line rent adjustments). The leverage ratio compares total debt plus rental expense (excluding any straight-line rent adjustments) multiplied by a factor of six to consolidated EBITDAR. The 2016 Senior Credit Facility 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.

Note 4 - Leases:

The Company leases the majority of its retail store locations, two distribution sites, its Merchandise Innovation Center, transportation equipment and other equipment under various non-cancellable operating leases. The leases have varying terms and expire at various dates through 2031. 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 the Company pays associated taxes, insurance and maintenance costs.

Total rent expense for fiscal 2015, 2014 and 2013 was approximately \$262.1 million, \$239.3 million and \$216.8 million, respectively. Total contingent rent expense for fiscal 2015, 2014 and 2013 was insignificant.

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

	Capital Leases	Operating Leases
2016	\$ 1,876	\$ 265,327
2017	1,876	258,361
2018	1,876	249,250
2019	1,876	236,796
2020	1,876	218,764
Thereafter	16,713	1,070,995
Total minimum lease payments	26,093	\$ 2,299,493
Amount representing interest	(8,223)	
Present value of minimum lease payments	17,870	
Less: current portion	(878)	
Long-term capital lease obligations	\$ 16,992	

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

	2015	2014
Building and improvements	\$ 18,831	\$ 5,623
Less: accumulated depreciation and amortization	(1,656)	(935)
	\$ 17,175	\$ 4,688

Note 5 - Capital Stock and Dividends:

Capital Stock

The authorized capital stock of the Company consists of common stock and preferred stock. The Company is authorized to issue 400 million 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.

Dividends

During fiscal 2015 and 2014, the Company's Board of Directors declared the following cash dividends:

Date Declared	Dividend Amount Per Share	Stockholders of Record Date	Date Paid
November 2, 2015	\$0.20	November 16, 2015	December 1, 2015
August 3, 2015	\$0.20	August 17, 2015	September 1, 2015
May 4, 2015	\$0.20	May 18, 2015	June 2, 2015
February 4, 2015	\$0.16	February 23, 2015	March 10, 2015
October 29, 2014	\$0.16	November 17, 2014	December 2, 2014
July 30, 2014	\$0.16	August 18, 2014	September 3, 2014
April 30, 2014	\$0.16	May 19, 2014	June 3, 2014
February 5, 2014	\$0.13	February 24, 2014	March 11, 2014

It is the present intention of the Board of Directors to continue to pay a quarterly cash dividend; however, the declaration and payment of future dividends will be determined by the Board of Directors in its sole discretion and will depend upon the earnings, financial condition, and capital needs of the Company, as well as other factors which the Board of Directors deem relevant.

On February 3, 2016, the Company's Board of Directors declared a quarterly cash dividend of \$0.20 per share of common stock. The dividend will be paid on March 8, 2016 to stockholders of record as of the close of business on February 22, 2016.

Note 6 - Treasury Stock:

The Company's Board of Directors has authorized common stock repurchases under the share repurchase program up to \$2 billion, exclusive of any fees, commissions, or other expenses related to such repurchases, through December 2017. 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 are accounted for at cost and will be held in treasury for future issuance. The program may be limited or terminated at any time without prior notice.

The Company repurchased 3.4 million, 4.7 million and 2.3 million shares of common stock under the share repurchase program at a total cost of \$292.7 million, \$298.5 million and \$129.4 million in fiscal 2015, 2014 and 2013, respectively. As of December 26, 2015, the Company had remaining authorization under the share repurchase program of \$570.7 million, exclusive of any fees, commissions, or other expenses.

Note 7 - Net Income Per Share:

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

2015			
	Net Income	Shares	Per Share Amount
Basic net income per share	\$ 410,395	135,582	\$ 3.03
Dilutive stock options and restricted stock units outstanding	—	1,263	(0.03)
Diluted net income per share	<u>\$ 410,395</u>	<u>136,845</u>	<u>\$ 3.00</u>
2014			
	Net Income	Shares	Per Share Amount
Basic net income per share	\$ 370,885	137,769	\$ 2.69
Dilutive stock options and restricted stock units outstanding	—	1,666	(0.03)
Diluted net income per share	<u>\$ 370,885</u>	<u>139,435</u>	<u>\$ 2.66</u>
2013			
	Net Income	Shares	Per Share Amount
Basic net income per share	\$ 328,234	139,415	\$ 2.35
Dilutive stock options and restricted stock units outstanding	—	2,308	(0.03)
Diluted net income per share	<u>\$ 328,234</u>	<u>141,723</u>	<u>\$ 2.32</u>

Anti-dilutive stock options excluded from the above calculations totaled approximately 0.9 million, 1.0 million and 0.6 million in fiscal 2015, 2014 and 2013, respectively.

Note 8 – Income Taxes:

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

	2015	2014	2013
Current tax expense:			
Federal	\$ 225,253	\$ 211,383	\$ 175,039
State	17,419	25,133	19,129
Total current	<u>242,672</u>	<u>236,516</u>	<u>194,168</u>
Deferred tax (benefit) expense:			
Federal	(7,017)	(14,493)	(5,341)
State	1,567	(5,321)	(2,968)
Total deferred	<u>(5,450)</u>	<u>(19,814)</u>	<u>(8,309)</u>
Total provision	<u>\$ 237,222</u>	<u>\$ 216,702</u>	<u>\$ 185,859</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):

	2015	2014
Current tax assets:		
Inventory valuation	\$ 18,147	\$ 16,602
Accrued employee benefit costs	21,368	18,770
Accrued sales tax audit reserve	2,316	2,053
Other	10,369	11,585
	<u>52,200</u>	<u>49,010</u>
Current tax liabilities:		
Inventory basis difference	(3,497)	(4,657)
Prepaid expenses	(2,108)	(2,109)
Other	(625)	(1,282)
	<u>(6,230)</u>	<u>(8,048)</u>
Net current tax asset	<u>\$ 45,970</u>	<u>\$ 40,962</u>
Non-current tax assets:		
Rent expenses in excess of cash payments required	29,179	27,166
Deferred compensation	20,125	17,956
Workers compensation insurance	7,233	6,989
General liability insurance	3,141	2,741
Lease exit obligations	2,378	2,437
Income tax credits	825	2,205
Accrued sales tax audit reserve	2,505	2,085
Other	3,274	3,745
	<u>68,660</u>	<u>65,324</u>
Non-current tax liabilities:		
Depreciation	(55,805)	(52,626)
Other	(3,631)	(3,916)
	<u>(59,436)</u>	<u>(56,542)</u>
Net non-current tax asset	<u>\$ 9,224</u>	<u>\$ 8,782</u>
Net deferred tax asset	<u>\$ 55,194</u>	<u>\$ 49,744</u>

The Company has evaluated the need for a valuation allowance for all or a portion of the deferred tax assets. The Company believes that all of the deferred tax assets will more likely than not be realized through future earnings. The Company had state tax credit carryforwards of \$4.4 million and \$5.0 million as of December 26, 2015 and December 27, 2014, respectively, with varying dates of expiration between 2016 and 2025. The Company provided no valuation allowance as of December 26, 2015 and December 27, 2014 for state tax credit carryforwards, as the Company believes it is more likely than not that all of these credits will be utilized before their expiration dates.

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

	2015	2014	2013
Tax provision at statutory rate	\$ 226,666	\$ 205,656	\$ 179,933
Tax effect of:			
State income taxes, net of federal tax benefits	12,341	12,878	10,505
Permanent differences	(1,785)	(1,832)	(4,579)
	<u>\$ 237,222</u>	<u>\$ 216,702</u>	<u>\$ 185,859</u>

The Company and its affiliates file income tax returns in the U.S. and various state and local jurisdictions. With few exceptions, the Company is no longer subject to federal, state and local income tax examinations by tax authorities for years before 2011. Various states have completed an examination of our income tax returns for 2010 through 2013 with minimal adjustments.

The total amount of unrecognized tax positions that, if recognized, would decrease the effective tax rate, is \$1.9 million at December 26, 2015. In addition, the Company recognizes current interest and penalties accrued related to these uncertain tax positions as interest expense, and the amount is not material to the Consolidated Statements of Income. The Company estimates the overall decrease in unrecognized tax positions in the next twelve months will range between \$0.2 million and \$0.6 million. A reconciliation of the beginning and ending gross amount of unrecognized tax positions (exclusive of interest and penalties) is as follows (in thousands):

	2015	2014	2013
Balance at beginning of year	\$ 3,500	\$ 2,482	\$ 5,898
Additions based on tax positions related to the current year	869	1,104	741
Additions for tax positions of prior years	—	280	—
Reductions for tax positions of prior years	(1,447)	(366)	(3,937)
Reductions due to audit results	—	—	(220)
Balance at end of year	<u>\$ 2,922</u>	<u>\$ 3,500</u>	<u>\$ 2,482</u>

Note 9 - Retirement Benefit Plans:

The Company has a defined contribution benefit plan, the Tractor Supply Company 401(k) Retirement Savings Plan (the “401(k) Plan”), which provides retirement benefits for eligible employees. The Company matches (in cash) 100% of the employee’s elective contributions up to 3% of eligible compensation plus 50% of the employee’s elective contributions from 3% to 6% of 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 vested. Company contributions to the 401(k) Plan during fiscal 2015, 2014 and 2013, were approximately \$5.9 million, \$5.6 million and \$4.9 million, respectively.

The Company offers, through a deferred compensation program, the opportunity for certain qualifying employees to elect to defer a portion of their annual base salary and/or their annual incentive bonus. Under the deferred compensation program, a percentage of the participants’ salary deferral is matched by the Company, limited to a maximum annual matching contribution of \$4,500. The Company’s contributions, including accrued interest, were \$0.5 million in each of the fiscal years 2015, 2014 and 2013.

Note 10 – Commitments and Contingencies:

Construction and Real Estate Commitments

At December 26, 2015, the Company had no material commitments related to construction projects extending greater than twelve months.

Letters of Credit

At December 26, 2015, there were \$48.7 million outstanding letters of credit under the 2011 Senior Credit Facility.

Litigation

The Company responded to a Request for Information from the United States Environmental Protection Agency (“EPA”) in the first quarter of fiscal 2009 relating to certain recreational vehicles and non-road spark ignition engines sold by the Company. In the first quarter of fiscal 2011, the Environmental Enforcement Section of the Department of Justice (“DOJ”), on behalf of the EPA, informed the Company that it believed the Company had violated the Clean Air Act by importing or causing the importation of certain engines that were noncompliant.

The products at issue were purchased by the Company pursuant to agreements with vendors under which the vendors represented that their products complied with all the applicable laws and regulations and under which the vendors agreed to indemnify the Company for any liabilities or costs relating to, among other matters, the noncompliance or alleged noncompliance of their products. The Company notified these vendors of the EPA’s position and worked with these vendors to provide additional information to the DOJ and EPA regarding the alleged violations. As a result of this process, the Company and its vendors provided evidence that many of the products identified by the DOJ and EPA in early 2011 were, in fact, in compliance with the Clean Air Act and that most of the remaining issues related to products purchased from one vendor. The vendor of these products and the

Company engaged in settlement discussions with the DOJ and EPA that resulted in the settlement of the matter. A consent decree reflecting the terms of the settlement was filed with the United States District Court in Washington, D.C. on September 30, 2015.

Under the settlement, the Company agreed to implement a formal compliance program for the small-engine products purchased by the Company for resale to its customers. The Company also agreed to pay a civil penalty, most of which was reimbursed by the vendor who sold the small-engine products at issue to the Company. In addition, the Company agreed to sponsor an emissions offset program that will result in the replacement of 22 older wood-burning stoves with EPA-certified wood-burning stoves. The settlement was approved by the court on January 19, 2016. The civil penalty did not differ materially from the amount accrued. The cost of the settlement and the compliance and emission offset program will not have a material effect on our financial condition, results of operations or cash flows.

The Company is also involved in various litigation matters arising in the ordinary course of business. The Company believes that any estimated loss related to such matters has been adequately provided in accrued liabilities to the extent probable and reasonably estimable. Accordingly, the Company currently expects these matters will be resolved without material adverse effect on its consolidated financial position, results of operations or cash flows.

Note 11 – Segment Reporting:

The Company has one reportable segment which is the retail sale of products that support the rural lifestyle. The Company manages the business on the basis of one operating segment. The following chart indicates the percentage of sales represented by each major product category during fiscal 2015, 2014, and 2013:

Product Category:	Percent of Sales		
	2015	2014	2013
Livestock and Pet	44%	44%	43%
Hardware, Tools and Truck	23	22	23
Seasonal, Gift and Toy Products	20	20	20
Clothing and Footwear	8	9	9
Agriculture	5	5	5
Total	100%	100%	100%

Note 12 – New Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” which implemented a one-year deferral of ASU 2014-09. As a result of the deferral, the amendments in ASU 2014-09 are effective for reporting periods beginning after December 15, 2017. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Management is currently assessing the impact the adoption of ASU 2014-09 will have on our Consolidated Financial Statements and related disclosures, including which transition method it will adopt.

In April 2015, the FASB issued ASU 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). This update requires that debt issuance costs related to a recognized debt liability be presented in the consolidated balance sheet as a direct reduction from the carrying amount of that debt liability. ASU 2015-03 requires retrospective application and is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company does not expect that the adoption of this guidance will have a material impact on our Consolidated Financial Statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”). This update requires an entity that determines the cost of inventory by methods other than last-in, first-out and the retail inventory

method to measure inventory at the lower of cost and net realizable value. ASU 2015-11 requires prospective application and is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company does not expect that the adoption of this guidance will have a material impact on our Consolidated Financial Statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). This update requires that deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. ASU 2015-17 may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The updated guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. Upon adoption, the updated guidance will affect the presentation of the deferred tax liabilities and assets within the Company’s Consolidated Balance Sheet; however, the updated guidance will not affect the accounting for deferred tax liabilities and assets. Other than the change in presentation, the Company does not expect that the adoption of this guidance will have a material impact on our Consolidated Financial Statements and related disclosures.

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

None

Item 9A. **Controls and Procedures**

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, 2015. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 26, 2015 our disclosure controls and procedures were effective.

Internal Control Over Financial Reporting

A report of the Company’s management on the Company’s internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the 1934 Act) and a report of Ernst & Young LLP, an independent registered public accounting firm, on the effectiveness of the Company’s internal control over financial reporting are included in Item 8 of this Annual Report on Form 10-K.

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 “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 May 3, 2016 is incorporated herein by reference.

The Company has a Code of Ethics which covers all exempt employees, officers and directors of the Company, including the principal executive officer, principal financial officer, principal accounting officer and controller. The Code of Ethics is available in the “Corporate Governance” section of the Company’s website at TractorSupply.com. A copy of the Code of Ethics can also be obtained, free of charge, upon written request to the Corporate Secretary, Tractor Supply Company, 5401 Virginia Way,

Brentwood, TN 37027. The Company intends to post amendments to or waivers, if any, from its Code of Ethics (to the extent applicable to its principal executive officer, principal financial officer, principal accounting officer or controller) on its website.

Item 11. Executive Compensation

The information set forth under the captions “Corporate Governance – Compensation Committee Interlocks and Insider Participation,” “Compensation of Directors,” and “Executive Compensation” in our Proxy Statement for our Annual Meeting of Stockholders to be held on May 3, 2016 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 May 3, 2016 is incorporated herein by reference.

Following is a summary of our equity compensation plans as of December 26, 2015, under which equity securities are authorized for issuance, aggregated as follows:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
<u>Equity compensation plans approved by security holders:</u>			
Stock Incentive Plans	4,081,123 ^(a)	\$ 51.99 ^(b)	4,802,224
Employee Stock Purchase Plan	—	—	12,163,549
<u>Equity compensation plans not approved by security holders</u>			
Total	4,081,123	\$ 51.99	16,965,773

^(a) Includes 3,861,506 stock options, 166,673 unvested restricted stock units and 52,944 restricted stock units which have vested but the receipt of which have been deferred by the recipient. The 2006 Stock Incentive Plan was superseded in May 2009 by the 2009 Stock Incentive Plan. The 2000 Stock Incentive Plan was superseded in May 2006. Shares available under the 2009 Stock Incentive Plan are reduced by one share for each share issued pursuant to the exercise of a stock option and by two shares for each share issued pursuant to a full-value award (e.g., restricted stock unit).

^(b) Restricted stock units have a weighted average exercise price of zero.

The information set forth in Note 2 to the “Notes to Consolidated Financial Statements” contained in this Form 10-K 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 “Corporate Governance - Director Independence and Board Operations” and “Related-Party Transactions” in our Proxy Statement for our Annual Meeting of Stockholders to be held on May 3, 2016 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 May 3, 2016, is incorporated herein by reference.

PART IV

Item 15. **Exhibits and Financial Statement Schedules**

(a) (1) Financial Statements

See Consolidated Financial Statements under Item 8 on pages 39 through 59 of this Form 10-K.

(a) (2) Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, are inapplicable or the information is included in the Consolidated Financial Statements and, therefore, have been omitted.

(a) (3) Exhibits

The exhibits listed in the Index to Exhibits, which appears on pages 63 through 65 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 22, 2016

By: /s/ 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 22, 2016
<u>/s/ Gregory A. Sandfort</u> Gregory A. Sandfort	President and Chief Executive Officer and Director (Principal Executive Officer)	February 22, 2016
<u>/s/ Cynthia T. Jamison</u> Cynthia T. Jamison	Chairman of the Board	February 22, 2016
<u>/s/ Johnston C. Adams</u> Johnston C. Adams	Director	February 22, 2016
<u>/s/ Peter D. Bewley</u> Peter D. Bewley	Director	February 22, 2016
<u>/s/ Richard W. Frost</u> Richard W. Frost	Director	February 22, 2016
<u>/s/ Keith R. Halbert</u> Keith R. Halbert	Director	February 22, 2016
<u>/s/ George MacKenzie</u> George MacKenzie	Director	February 22, 2016
<u>/s/ Edna K. Morris</u> Edna K. Morris	Director	February 22, 2016
<u>/s/ Mark J. Weikel</u> Mark J. Weikel	Director	February 22, 2016

EXECUTIVE OFFICERS

Gregory A. Sandfort
*President and
Chief Executive Officer*

Anthony F. Crudele
*Executive Vice President,
Chief Financial Officer
and Treasurer*

Steve K. Barbarick
*Executive Vice President,
Chief Merchandising
Officer*

Benjamin F. Parrish, Jr.
*Executive Vice President,
General Counsel,
Real Estate and
Construction and
Corporate Secretary*

Robert D. Mills
*Senior Vice President,
Chief Information Officer*

Chad M. Frazell
*Senior Vice President,
Human Resources*

BOARD OF DIRECTORS

Cynthia T. Jamison
*Chairman of the Board
Tractor Supply Company
Former National Director
CFO Services
Partner
Tatum LLC
Director
Office Depot, Inc.,
Darden, Inc. and
Big Lots, Inc.*

Johnston C. Adams, Jr.⁽¹⁾⁽³⁾
*Former Chairman and
Chief Executive Officer
AutoZone, Inc.*

Peter D. Bewley^{(1)(3)*}
*Former Senior
Vice President—
General Counsel
The Clorox Company
Director
WD-40 Company*

Richard W. Frost⁽²⁾⁽³⁾
*Former Chief Executive
Officer
Louisiana-Pacific
Corporation
Director
Beacon Roofing Supply
and Westervelt Company*

Keith R. Halbert⁽¹⁾⁽³⁾
*Chief Information Officer
LATAM Airline Group
Former Executive
Vice President and
Chief Information Officer
United Continental
Holdings*

George MacKenzie^{(1*)(2)}
*Non-Executive Chairman
American Water Works
Director
Safeguard Scientifics Inc.*

Edna K. Morris^{(2*)(3)}
*Chief Executive Officer
and Partner
Range Restaurant Group
Managing Director
Axum Capital Partners
Former President
James Beard Foundation
and Red Lobster*

Gregory A. Sandfort
*President and
Chief Executive Officer
Tractor Supply Company
Director
WD-40 Company*

Mark J. Weikel⁽¹⁾⁽²⁾
*Former President and
Chief Executive Officer
Retail Optical North
America, Luxottica Group
Director
Gymboree, OneSight and
2020, Inc.*

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





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