TRACTOR SUPPLY CO /DE/
Form 10-K
February 23, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)
ý 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
o 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	13-3139732
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5401 Virginia Way, Brentwood, Tennessee	37027
(Address of Principal Executive Offices)	(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	Name of each exchange on which registered
Common Stock, $.008 par value	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 þ NO o
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 o NO þ
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 þ NO o
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 þ NO o
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. o

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	þ	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.)
YES o NO þ

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.

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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.

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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:

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- 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:

	Percent of Sales					
Product Category:	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.

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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)	JobSmart® (tools)
Bit & Bridle® (apparel and footwear)	Paws & Claws® (pet foods and supplies)
Blue Mountain® (apparel)	Producer's Pride® (livestock and horse feed and supplies)
C.E. Schmidt® (apparel and footwear)	Red Shed® (gifts, collectibles, and outdoor furniture)
Countyline® (livestock, farm and ranch equipment)	Redstone® (heating products)
Dumor® (livestock and horse feed and supplies)	Retriever® (pet foods and supplies)
Equistages® (horse feed)	Royal Wing® (bird feed and supplies)
Groundwork® (lawn and garden supplies)	Traveller® (truck and automotive products)
Huskee® (outdoor power equipment)	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.

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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.

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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

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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.

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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

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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.

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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,

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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.

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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		
			1,488

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

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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.

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PART II

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

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

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

	Price Range			
	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.

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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
	564,613	86.34	564,613	570,686,010
As of December 26, 2015	3,450,755	$85.70	3,415,413	$570,686,010

[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.

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STOCK PERFORMANCE GRAPH

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

The following graph compares the cumulative total stockholder return on our common stock from December 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

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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.

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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.

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Significant Accounting Policies and Estimates

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

Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Inventory Valuation: Inventory Impairment		
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.	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. 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.	We have not made any material changes in the accounting methodology used to recognize inventory impairment reserves in the financial periods presented. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate 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. 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.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Shrinkage		
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.	The estimated store inventory shrink rate is based on historical experience. We believe historical rates are a reasonably accurate reflection of future trends. 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.	We have not made any material changes in the accounting methodology used to recognize shrinkage in the financial periods presented. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our shrinkage reserve. However, if our estimates regarding inventory losses are inaccurate, we may be exposed to losses or gains that could be material. A 10% change in our shrinkage reserve as of December 26, 2015, would have affected net income by approximately $1.2 million in fiscal 2015.
Vendor Funding		
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. 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.	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. 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.	We have not made any material changes in the accounting methodology used to establish our vendor support reserves in the financial periods presented. 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. We do not believe there is a significant collectability risk related to vendor support amounts due us at the end of fiscal 2015. 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.

During interim periods, the amount of vendor support is estimated based upon initial commitments and anticipated purchase levels with applicable vendors.		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.
Freight		
We incur various types of transportation and delivery costs in connection with inventory purchases and distribution. Such costs are included as a component of the overall cost of inventories (on an aggregate basis) and recognized as a component of cost of merchandise sold as the related inventory is sold.	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.	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. 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.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Self-Insurance Reserves:		
We self-insure a significant portion of our employee medical insurance, workers' compensation and general liability insurance plans. We have stop-loss insurance policies to protect from individual losses over specified dollar values. 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.	The full extent of certain claims, especially workers' compensation and general liability claims, may not become fully determined for several years. 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.	We have not made any material changes in the accounting methodology used to establish our self-insurance reserves in the financial periods presented. 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. 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.
Sales Tax Audit Reserve: 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. 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	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. 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.	We have not made any material changes to our sales tax audit assessment methodology in the financial periods presented. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate 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. 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.

estimated liability is based on an initial assessment of compliance risk as well as our historical experience with each respective state.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Tax Contingencies: Our income tax returns are periodically audited by U.S. federal and state tax authorities. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any time, multiple tax years are subject to audit by the various tax authorities. In evaluating the exposures associated with our various tax filing positions, we record 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.	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.	We have not made any material changes in the accounting methodology used to establish our tax contingencies in the financial periods presented. 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. 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. 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. 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.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ From Assumptions
Impairment of Long-Lived Assets: Long-lived assets other than goodwill and indefinite-lived intangible assets, which are separately tested for impairment, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The significant assumptions used to determine estimated undiscounted cash flows include cash inflows and outflows directly resulting from the use of those assets in operations, including margin on net sales, payroll and related items, occupancy costs, insurance allocations and other costs to operate a store. If the estimated future cash flows are less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based on an estimated future cash flow model. We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over	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.	We have not made any material changes in our impairment loss assessment methodology in the financial periods presented. 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.

the remaining estimated useful life of
that asset.

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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 %

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				