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**Nov 25 2024**

**SC Court of Appeals**

THE STATE OF SOUTH CAROLINA  
In The Court of Appeals

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APPEAL FROM THE ADMINISTRATIVE LAW COURT

Ralph King Anderson, III, Chief Administrative Law Judge

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Appellate Case No. 2024-000013  
Administrative Law Court Case No. 19-ALJ-17-0416-CC

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|                                       |             |
|---------------------------------------|-------------|
| Tractor Supply Company,               | Appellant,  |
| v.                                    |             |
| South Carolina Department of Revenue, | Respondent. |

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**RECORD ON APPEAL  
VOLUME X**

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**“WHETHER YOU’VE GOT**  
*Tractor Supply and the Rural Revolution*  
**ONE ACRE OR 1,000”**



**2000 ANNUAL REPORT**

ROA\_004018

SCDOR\_006452

*Since its founding* as a mail order tractor parts business in 1938, Tractor Supply Company has grown to be one of the largest operators of retail farm stores in the United States. The Company is dedicated to meeting the maintenance needs of anyone owning from one acre to a thousand. The Company's customer base includes hobby, part-time and full-time farmers and ranchers, as well as rural customers, contractors and tradesmen – anyone who is actively engaged in today's rural lifestyle. At the close of fiscal 2000, the Company operated 305 retail farm stores in 28 states. Tractor Supply Company stores typically range in size from 12,000 to 14,000 square feet of inside space and utilize at least as many square feet of outside selling space. An average store displays a comprehensive selection of over 12,000 different products including farm maintenance products (fencing, tractor parts and accessories, agricultural spraying equipment and tillage parts); animal and pet products (specialty feeds, supplements, medicines, veterinary supplies and livestock feeders); general maintenance products (air compressors, welders, generators, pumps, plumbing and tools); lawn and garden products (riding mowers, tillers and fertilizers); light truck equipment; and work clothing. The stores are located in rural communities and in the outlying areas of large cities where the rural lifestyle is a significant factor in the local economy. The Company employs approximately 4,000 people. Tractor Supply Company has been a public company since February 1994. Its stock is traded on The Nasdaq National Market under the symbol "TSCO."

**NUMBER OF STORES BY STATE**  
(at Year-End)



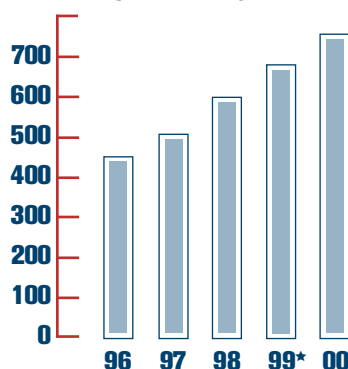
|                |    |                |    |              |   |              |            |
|----------------|----|----------------|----|--------------|---|--------------|------------|
| TEXAS          | 59 | ILLINOIS       | 10 | NEBRASKA     | 6 | MISSISSIPPI  | 1          |
| OHIO           | 37 | IOWA           | 9  | MINNESOTA    | 5 | MONTANA      | 1          |
| TENNESSEE      | 28 | VIRGINIA       | 9  | PENNSYLVANIA | 5 | NEW YORK     | 1          |
| MICHIGAN       | 22 | KANSAS         | 8  | SOUTH DAKOTA | 4 | WISCONSIN    | 1          |
| INDIANA        | 19 | SOUTH CAROLINA | 8  | ALABAMA      | 3 |              |            |
| NORTH CAROLINA | 19 | NORTH DAKOTA   | 7  | OKLAHOMA     | 3 |              |            |
| KENTUCKY       | 14 | ARKANSAS       | 6  | MARYLAND     | 2 |              |            |
| FLORIDA        | 11 | MISSOURI       | 6  | GEORGIA      | 1 |              |            |
|                |    |                |    |              |   | <b>TOTAL</b> | <b>305</b> |

# TRACTOR SUPPLY COMPANY FINANCIAL HIGHLIGHTS

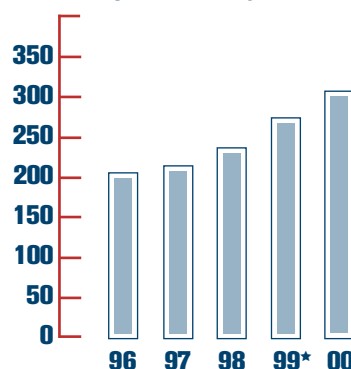
(in thousands, except where noted)

|                                               | Fiscal Year |           | Percent Increase<br>(Decrease) |
|-----------------------------------------------|-------------|-----------|--------------------------------|
|                                               | 2000        | 1999*     |                                |
| Operating Results:                            |             |           |                                |
| Net sales                                     | \$759,037   | \$688,082 | 10.3%                          |
| Income before income taxes                    | 27,596      | 30,111    | (8.4)                          |
| Net income                                    | 16,390      | 17,874    | (8.3)                          |
| Net income per share – basic (\$)             | 1.87        | 2.04      | (8.3)                          |
| Net income per share – assuming dilution (\$) | 1.87        | 2.02      | (7.4)                          |
| Financial Position:                           |             |           |                                |
| Total assets                                  | 332,296     | 302,630   | 9.8                            |
| Cash and short-term investments               | 9,145       | 6,991     | 30.8                           |
| Stockholders' equity                          | 155,036     | 138,305   | 12.1                           |
| Long-term debt to equity (%)                  | 40.6        | 39.5      | 2.8                            |
| Statistics:                                   |             |           |                                |
| Number of stores (#)                          | 305         | 273       | 11.7                           |
| Square footage at year-end                    | 3,905       | 3,448     | 13.3                           |
| Average sales per store                       | 2,603       | 2,682     | (2.9)                          |
| Net sales per square foot (\$)                | 204         | 214       | (4.7)                          |

**Net Sales for 1996-2000**  
(in millions)



**Total Number of Stores**  
for 1996 - 2000  
(at Year-End)



\*53-week fiscal year.

As with any business, all phases of the Company's operations are subject to influences outside its control. This report contains certain forward-looking statements. These statements include reference to certain factors, any one, or a combination, of which could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, pricing and other competitive factors, the ability to attract, train and retain highly qualified associates, the ability to identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions in general and the seasonality of the Company's business. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

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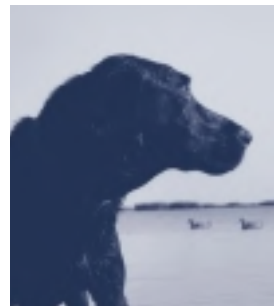
## *Strengthening our Leadership.*

Tractor Supply Company achieved record sales and opened a record 35 new stores in 2000. We successfully entered the Florida market with a ten-store simultaneous grand opening at mid-year and those stores continue to perform exceptionally well. The new distribution

centers in Pendleton, Indiana and Waco, Texas are efficiently supporting the majority of our stores. In addition, the new systems installed in 1999 are getting the job done. We missed our same store sales growth and earnings targets in the year 2000, but finished the year with a strong 4.6% fourth quarter improvement in same store sales. We are particularly proud of the fourth quarter improvement considering the challenge of overcoming the Y2K related sales comparisons from 1999 and the impact of the tight labor market at the store level.

Three senior management additions were made in 2000 that substantially strengthened our leadership team:

- **Cal Massmann, Chief Financial Officer,** joined us early in the year and is making substantial contributions in finance and information technology.
- **Stan Ruta, promoted to Senior Vice President – Store Operations** at mid-year, has set clear, logical, consistent direction for our stores.
- **Jim Wright, President and Chief Operating Officer,** joined us late in the year, has learned quickly, and is now an active and aggressive business leader.



The investments in distribution capacity, operating systems and the Florida market have positioned us for growth and will continue to contribute to our ongoing success. We are now clearly focused on basic execution throughout the organization. Here are the key business drivers for 2001:

- **Improving same store sales – This is job number one for everyone.** Aggressive plans are in place to drive same store sales increases in 2001.
- **Strengthening the middle management team – Extraordinary steps are in place to recruit and train new managers,** which will have a broad, long-range positive impact on our effectiveness.

- **Accelerating changes in product assortments – We will be more differentiated in key categories and products while more dominant in our core mower, lawn tractor and accessories business. We are meeting the changing needs of our unique customers.**
- **Managing the inventory efficiently – Inventory turn can be improved; targets are set and results are expected.**
- **Simplifying everything – We have a “full court press” to eliminate the unnecessary everywhere.**
- **Expanding the store base – We plan to open 25 new stores – all in fill-in markets – and relocate or renovate 6 to 11 older, profit-producing locations to better serve customers.**

Tractor Supply Company has a strong organization, a committed team and a very special niche in the retail market place. Last year, Yankelovich Partners was engaged to perform a major research project. This and other data tell us that our customer base has broadened and our niche is valid. There are more than 300 additional market opportunities for new stores east of the Rocky Mountains. Tractor Supply Company has a bright future with huge growth opportunities in both existing and new markets.



We are a solid, strong, missions and values driven organization. We know our customer very well, we understand the products they want, and we have a clear grasp of the farm and ranch store market niche. Our organization has a winning attitude.

The two of us have become strong partners in the last several months. We both have a clear, aggressive and unified vision for the Tractor Supply Company of the future. We believe that there are simply no limits.

Joe Scarlett  
Chairman of the Board and  
Chief Executive Officer

Jim Wright  
President and  
Chief Operating Officer



A broad array of power equipment is carried by Tractor Supply and sold under the well-respected Huskee™ brand. The exclusive Huskee™ line

*The tractor you need.*

*The accessories you need.*

*The team you need.*

In establishing merchandise strategies for the year 2000, we recognized that riding mowers, lawn tractors and their accessories

includes riders, lawn tractors, tillers, push mowers, string trimmers, log splitters and accessories. The Huskee™ line-up is merchandised in a center island position in the store and provides excellent visibility to our customer.

The power equipment promotion was anchored by two promotional themes. The

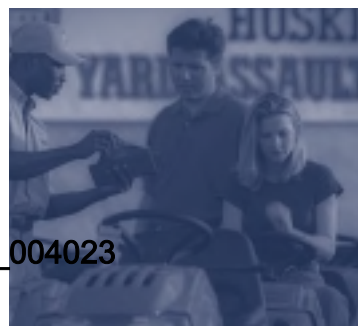
### *The Rural Revolution*

**AFTER DECADES OF DECLINE, THE RURAL POPULATIONS ARE GROWING AT THE FASTEST RATE IN TWENTY YEARS.**

Tractor Supply is the clear leader in supporting this lifestyle niche.

offered a significant opportunity for future increased sales and customer diversification. The concept of taking care of “one acre or a thousand” is perfectly suited to this power equipment category. So the rallying cry for the Company in Spring 2000 became... “Riders! Riders! Riders!”

first was “The Yard Assault Squad.” This group consisted of specially trained store associates who were ready, willing and able to answer customer questions and determine



needs. The horsepower and cut width

for any size lawn or terrain was made readily available to customers through pre-campaign training. Special hats and uniform insignia designated the “Squad” members in each store. An entire advertising campaign that included national television, circulars and radio was built around this special team of store associates. The other promotional theme was “George has got himself a new cuttin’ horse.” Television commercials, radio and life-size store cutouts featured George Strait working a big 20-horsepower Huskee™ lawn tractor.



declining sales in the category.

Plans for 2001 call for continuing this aggressive power equipment program, which not only produces significant sales volume but further diversifies the Tractor

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### *The Rural Revolution*

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**IN THE PAST SIX YEARS, THE PERCENTAGE OF ADULTS NAMING GARDENING AS A FAVORITE ACTIVITY HAS INCREASED 44%.** Tractor Supply specializes in garden and lawn care with a full selection of tools, seed, fertilizer, sprays and sprayers, lawn and garden tractors, tillers and walk behind mowers.

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Overall sales success exceeded expectation. Riding mower volume increased to position Tractor Supply as one of the largest sellers of riders and lawn tractors in the country. This was accomplished at a time when other retailers were reported to have experienced flat or

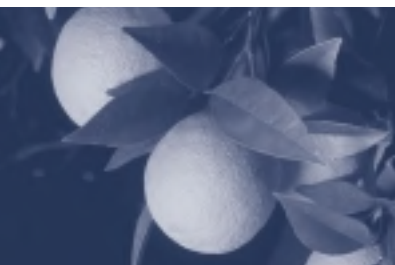
Supply customer base, giving us access to non-agricultural customers.



*Florida is just another place where people are out everyday getting a job done.*

June 24, 2000 dawned warm and clear in central Florida. For thousands of people it was another day to get a job done. But something occurred on that Saturday that made their lives easier and more convenient.

Ten Tractor Supply Company stores opened simultaneously, which was the

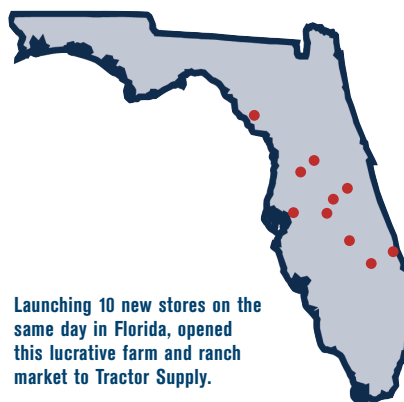


largest grand opening event in the Company's history. While many other retailers would

have shied away from such aggressive action, we at Tractor Supply saw it as a major opportunity.



By concentrating the opening dates, we were able, for the first time in our history, to use broad based media to support not only our store openings but also a new market entry. Spot television featuring Tractor Supply's



Launching 10 new stores on the same day in Florida, opened this lucrative farm and ranch market to Tractor Supply.

legendary spokesperson, George Strait, aired in four Florida television markets. National cable reinforced the fact that "if you live in Florida and have a job to do, your life just got

### *The Rural Revolution*

**TODAY, OVER \$5.3 BILLION IS SPENT ANNUALLY BY HOBBY FARMERS.**

Tractor Supply Company offers a diverse selection of merchandise to support the fast growing hobby and part-time segments.



a little easier” because of new Tractor Supply Company stores.

The openings produced numerous successes for the Company. Opening period sales for all ten stores were significantly above expectations for the first two months. Sales continued strong throughout the first six months with average

advertising awareness

and, most importantly, a high degree of satisfaction with the total Tractor Supply shopping experience.

The entire Florida program provided new learning which is being utilized today. The origins of this success were unique in that



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### *The Rural Revolution*

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**TODAY, TRUCKS ACCOUNT FOR 48% OF PERSONAL TRANSPORTATION OWNERSHIP AND 20% OF PICKUP OWNERS HAVE A TOOLBOX ON THEIR TRUCK.**

Tractor Supply offers a full line of truck and trailer supplies and is, on a per-store basis, the largest seller of truck toolboxes in America.

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store sales above Company averages. These successes were, in part, driven by a new merchandise mix and store set uniquely structured for the Florida markets.

The introduction to the Florida market provided the opportunity to measure the impact of spot market television in support of new stores. Pre- and post- opening market research validated the impact of the opening campaigns with significant

a special “travel team” was selected from a number of Company departments and sent to Florida with clean slates and no rules. This group was asked to brainstorm each and every aspect of the launch. New store sets, media usage, and merchandise plans all evolved from this "travel team" task approach. It was not only a sales success but it was a concept success as well. We met new challenges with fresh and creative ideas. This kind of initiative will help power our growth in the future. Today, features of the new Florida set are being deployed in all new stores.

increases in brand awareness, total





## *Understanding and serving a new lifestyle niche.*

A significant transformation is taking place in America relative to where people choose to live and the lifestyles they pursue. People are electing to move away from urban areas and constrictive subdivisions to new outer urban areas. Towns that had once been small satellite

are what we now refer to as the “rural revolution.”

To gain clearer insight into this new consumer

environment, we engaged the respected research firm of Yankelovich Partners, Inc. to provide an in-depth profile of our current customer base and give insights into their future wants and needs.

Only 8% of the Tractor Supply customer base classified themselves as full-time farmers while 47% stated they were part-time or hobby farmers. Of these, almost 60% said they farm for the unique lifestyle and not for the income.

The clear implication for Tractor Supply is

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### *The Rural Revolution*

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**TODAY, 1.9 MILLION AMERICANS OWN 6.9 MILLION HORSES MAKING A \$112 BILLION IMPACT ON THE GNP.**

Tractor Supply provides feed, tack, grooming aids, vet supplies, stalls, feed tubs and buckets and hundreds of other items key to horse ownership.

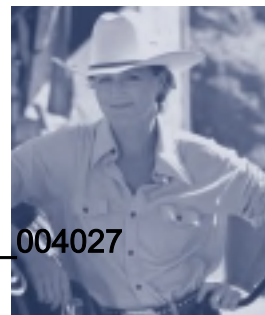
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communities surrounding major cities are now becoming major centers of population and commerce that serve an increasing number of people who are seeking a “place in the country.” The call of land and a more rewarding lifestyle

that we are a specialty retailer serving a lifestyle niche. As a reflection of this lifestyle preference, Tractor Supply sales have

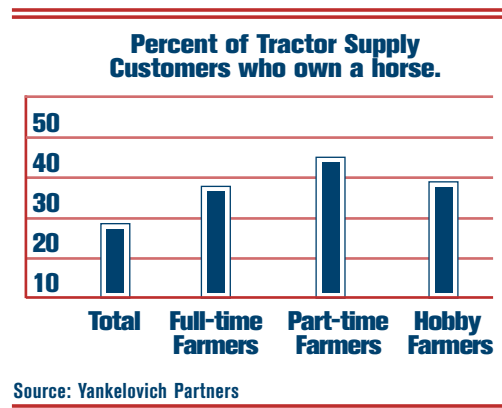
responded accordingly.

In the past three years,



those merchandise categories driven by the “rural revolution” have seen the most dramatic increases, such as animal care, tools, gardening, feed, truck and trailer and apparel.

With the growth of these "rural revolution" categories has come a shift in customer gender mix. Today, more and more women are shopping at Tractor Supply. They come to us for apparel, pet food, horse supplies and tack, vet supplies, gardening items and big ticket purchases such as lawn tractors. Our national advertising



comes repeat customer visits for feed, vet and barn supplies.

Vehicle choice among our customers also reflects the new lifestyle choice. Pickup truck ownership by our customers is twice the national

## *The Rural Revolution*

### **AMERICA'S DOG POPULATION IS UP 18% SINCE 1996 TO A TOTAL OF 62.4 MILLION.**

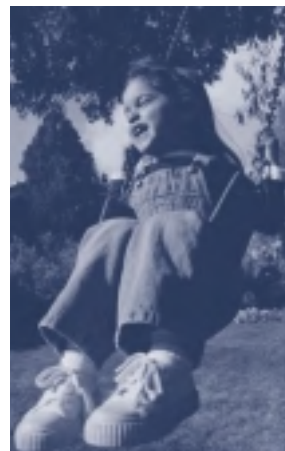
Tractor Supply offers a full pet and animal care center featuring leading national brands of feeds for dogs, cats, birds, horses and other livestock. In addition, pet owners find vet and grooming supplies, pens, cages, housing and training material.

campaign has included George Strait assuring women “There’s a lot in those Tractor Supply stores for you, too. So just kick those guys aside and walk right in.”

The “rural revolution” has opened up a whole new world of equine ownership that becomes increasingly popular every day. Today, almost 30% of all Tractor Supply customers own a horse. Among part-time farmers, this number reaches 44%. With horse ownership

average. Our merchandise positions in truck, trailer, toolbox and aftermarket automotive products are other reasons to expect an increase in frequency of visit in the future.

The “rural revolution” is not just a term to describe a Tractor Supply business trend. It is a real and powerful shift in American culture. One that is readily evident and growing. One that we are uniquely positioned to serve.





FIVE YEARS SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

|                                                   | Fiscal Year Ended                                   |                     |                      |                      |                      |
|---------------------------------------------------|-----------------------------------------------------|---------------------|----------------------|----------------------|----------------------|
|                                                   | (in thousands, except per share and operating data) |                     |                      |                      |                      |
|                                                   | December 30,<br>2000                                | January 1,<br>2000* | December 26,<br>1998 | December 27,<br>1997 | December 28,<br>1996 |
| <b>Operating Results:</b>                         |                                                     |                     |                      |                      |                      |
| Net Sales                                         | \$ 759,037                                          | \$ 688,082          | \$ 600,677           | \$ 509,052           | \$ 449,029           |
| Gross margin                                      | 200,407                                             | 181,251             | 154,638              | 131,542              | 116,651              |
| Selling, general and<br>administrative expenses   | 156,535                                             | 139,725             | 120,734              | 104,661              | 88,827               |
| Depreciation and amortization                     | 9,889                                               | 7,311               | 5,342                | 4,509                | 3,385                |
| Income from operations                            | 33,983                                              | 34,215              | 28,562               | 22,372               | 24,439               |
| Interest expense, net                             | 6,387                                               | 4,104               | 3,270                | 2,439                | 2,358                |
| Income before income taxes                        | 27,596                                              | 30,111              | 25,292               | 19,933               | 22,081               |
| Income tax provision                              | 11,206                                              | 12,237              | 10,492               | 8,172                | 8,845                |
| Net income                                        | \$ 16,390                                           | \$ 17,874           | \$ 14,800            | \$ 11,761            | \$ 13,236            |
| Net income applicable to<br>common stockholders   | \$ 16,390                                           | \$ 17,874           | \$ 14,800            | \$ 11,705            | \$ 13,039            |
| Net income per share - basic (a)                  | \$ 1.87                                             | \$ 2.04             | \$ 1.69              | \$ 1.34              | \$ 1.50              |
| Net income per share - diluted (a)                | \$ 1.87                                             | \$ 2.02             | \$ 1.68              | \$ 1.34              | \$ 1.49              |
| <b>Operating Data:</b>                            |                                                     |                     |                      |                      |                      |
| Gross margin                                      | 26.4%                                               | 26.3%               | 25.7%                | 25.8%                | 26.0%                |
| Selling, general and<br>administrative expenses   | 20.6%                                               | 20.3%               | 20.1%                | 20.5%                | 19.8%                |
| Income from operations                            | 4.5%                                                | 5.0%                | 4.7%                 | 4.4%                 | 5.4%                 |
| Net income                                        | 2.2%                                                | 2.6%                | 2.5%                 | 2.3%                 | 2.9%                 |
| Number of stores:                                 |                                                     |                     |                      |                      |                      |
| Beginning of year                                 | 273                                                 | 243                 | 228                  | 208                  | 185                  |
| New stores                                        | 35                                                  | 31                  | 15                   | 22                   | 23                   |
| Closed stores                                     | (3)                                                 | (1)                 | ---                  | (2)                  | ---                  |
| End of year                                       | 305                                                 | 273                 | 243                  | 228                  | 208                  |
| Number of relocated stores                        | 1                                                   | 1                   | 1                    | 1                    | 4                    |
| Number of remodeled stores (b)                    | ---                                                 | ---                 | ---                  | ---                  | 1                    |
| Total selling square footage<br>at period end (c) | 3,904,958                                           | 3,448,347           | 3,014,196            | 2,806,864            | 2,543,575            |
| Average sales per store<br>(in thousands) (d)     | \$ 2,603                                            | \$ 2,682            | \$ 2,542             | \$ 2,300             | \$ 2,238             |
| Net sales per square foot<br>of selling space     | \$ 204                                              | \$ 214              | \$ 206               | \$ 187               | \$ 184               |
| Comparable store sales increase (e)               | .4%                                                 | 4.4%                | 10.9%                | 3.1%                 | 2.5%                 |
| <b>Balance Sheet Data (at end of period):</b>     |                                                     |                     |                      |                      |                      |
| Working capital                                   | \$ 133,731                                          | \$ 117,306          | \$ 95,530            | \$ 82,869            | \$ 65,954            |
| Total assets                                      | 332,296                                             | 302,630             | 264,649              | 224,080              | 195,582              |
| Long-term debt, less current portion (f)          | 62,950                                              | 54,683              | 37,132               | 31,134               | 21,166               |
| Redeemable preferred stock                        | ---                                                 | ---                 | ---                  | ---                  | 1,763                |
| Stockholders' equity                              | 155,036                                             | 138,305             | 119,976              | 104,889              | 92,966               |

\*53-week fiscal year.

- (a) Basic net income per share is calculated based on the weighted average number of common shares outstanding applied to net income applicable to common stockholders. Diluted net income per share is calculated using the "if converted" method for convertible securities and the treasury stock method for options and warrants as prescribed by APB 15.
- (b) Includes remodelings costing more than \$150,000.
- (c) Total selling square footage includes normal selling space and excludes office, stockroom, receiving space and outside selling space.
- (d) Average sales per store is calculated based on the weighted average number of days open in the applicable period.
- (e) Comparable store sales increases are calculated on a 52-week basis, excluding relocations, using all stores open at least one year.
- (f) Long-term debt includes borrowings under the Company's principal revolving credit agreements, term loan agreements and other debt outstanding under its capital lease obligations, excluding the current portions of each.

The following discussion and analysis describes certain factors affecting Tractor Supply Company's (the "Company") results of operations for the three fiscal years ended December 30, 2000 and its liquidity and capital resources. This discussion should be read in conjunction with the financial statements and notes thereto included elsewhere in this Annual Report. The following discussion and analysis also contains certain historical and forward-looking information. The forward-looking statements 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 the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), business strategy, expansion and growth of the Company's business operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, the Company is identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by or on behalf of the Company.

All phases of the Company's operations are subject to influences outside its control. Any one, or a combination, of these factors could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, pricing and other competitive factors, the ability to attract, train and retain highly-qualified associates, the ability to identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions, in general, and the seasonality of the Company's business. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

The Company's fiscal year ends on the Saturday closest to December 31. Fiscal years 2000 and 1998 consist of 52 weeks, while fiscal year 1999 consists of 53 weeks.

## **OVERVIEW**

Since its founding as a mail order tractor parts business in 1938, the Company has grown to be one of the largest operators of retail farm stores in the United States. The Company supplies the daily farming and maintenance needs of its target customers: hobby, part-time and full-time farmers and ranchers, as well as rural customers, contractors and tradesmen. The Company's stores typically range in size from 12,000 to 14,000 square feet of inside selling space and utilize at least as many square feet of outside selling space. An average store displays a comprehensive selection of over 12,000 different products including farm maintenance products (fencing, tractor parts and accessories, agricultural spraying equipment and tillage parts); animal and pet products (specialty feeds, supplements, medicines, veterinary supplies and livestock feeders); general maintenance products (air compressors, welders, generators, pumps, plumbing and tools); lawn and garden products (riding mowers, tillers and fertilizers); light truck equipment; and work clothing. The stores are located in rural communities and in the outlying areas of large cities where farming is a significant factor in the local economy. The Company does not sell large tractors, combines, bulk chemicals or bulk fertilizers.

Over the past seven fiscal years since the Company's initial public offering in February 1994 (the "Offering"), the Company has opened 159 new retail farm stores: 13 in fiscal 1994, 20 in fiscal 1995, 23 in fiscal 1996, 22 in fiscal 1997, 15 in fiscal 1998, 31 in fiscal 1999, and 35 in fiscal 2000. These new stores have increased the Company's market presence in the Southwest, primarily in Texas, and in the Southeast, primarily in Tennessee, Kentucky, North Carolina and Florida. This expansion brings the Company's total store count to 305 (in 28 states) as of December 30, 2000. The Company plans to open 25 stores in fiscal 2001, approximately 11 of which are scheduled to open in the first quarter of fiscal 2001, 25 in fiscal 2002 and additional stores thereafter. In total over the past seven fiscal years since the Offering, the Company has opened, relocated or remodeled 182 stores.

Between fiscal year 1994 and fiscal year 2000, net sales increased from \$330.0 million to \$759.0 million and net income increased from \$11.3 million to \$16.4 million, reflecting a six-year compound annual growth rate of 14.9% and 6.5%, respectively. The Company generated these growth rates primarily from increases in comparable store sales and through new store openings and relocations of existing stores. Comparable stores sales increased .4%, 4.4% and 10.9% in fiscal 2000, 1999 and 1998, respectively. Since 1994, the 137 new or relocated stores that have been open more than one year have generated average net sales that are approximately 15.4% per annum greater than those of existing stores.

#### **SEASONALITY AND WEATHER**

The Company's business is highly seasonal. Historically, the Company's sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the farming industry's planting and harvesting seasons and the sale of seasonal products. The Company has typically operated at a net loss in the first fiscal quarter of each year. Unseasonable weather, excessive rain, drought, and early or late frosts may also affect the Company's sales. The Company believes, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of its stores.

The Company experiences a buildup of inventory and accounts payable during its first fiscal quarter each year for purchases of seasonal product in anticipation of the April through June selling season and again during its third fiscal quarter in anticipation of the October through December selling season.

The Company's unaudited quarterly operating results for each fiscal quarter of 2000 and 1999 are shown below (dollars in thousands, except per share amounts):

|                                                    | <b>First<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> | <b>Total</b> |
|----------------------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------|
| <b>2000</b>                                        |                          |                           |                          |                           |              |
| Net sales                                          | \$147,482                | \$232,341                 | \$175,478                | \$203,736                 | \$759,037    |
| Gross margin                                       | 37,604                   | 61,585                    | 45,117                   | 56,101                    | 200,407      |
| Income (loss) from operations                      | (338)                    | 19,062                    | 3,619                    | 11,640                    | 33,983       |
| Net income (loss)                                  | (975)                    | 10,546                    | 1,123                    | 5,696                     | 16,390       |
| Net income (loss) per share - basic                | (.11)                    | 1.20                      | .13                      | .65                       | 1.87         |
| Net income (loss) per share -<br>assuming dilution | (.11)                    | 1.20                      | .13                      | .65                       | 1.87         |
| <b>1999</b>                                        |                          |                           |                          |                           |              |
| Net sales                                          | \$125,647                | \$214,124                 | \$160,214                | \$188,097                 | \$688,082    |
| Gross margin                                       | 32,192                   | 55,519                    | 41,623                   | 51,917                    | 181,251      |
| Income (loss) from operations                      | (1,131)                  | 17,811                    | 5,624                    | 11,911                    | 34,215       |
| Net income (loss)                                  | (1,140)                  | 10,125                    | 2,647                    | 6,242                     | 17,874       |
| Net income (loss) per share - basic                | (.13)                    | 1.16                      | .30                      | .71                       | 2.04         |
| Net income (loss) per share -<br>assuming dilution | (.13)                    | 1.14                      | .30                      | .71                       | 2.02         |

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items in the Company's Statements of Income expressed as a percentage of net sales:

|                                                 | Fiscal Year Ended    |                    |                      |                      |                      |
|-------------------------------------------------|----------------------|--------------------|----------------------|----------------------|----------------------|
|                                                 | December 30,<br>2000 | January 1,<br>2000 | December 26,<br>1998 | December 27,<br>1997 | December 28,<br>1996 |
| Net sales                                       | 100.0%               | 100.0%             | 100.0%               | 100.0%               | 100.0%               |
| Cost of merchandise sold                        | 73.6                 | 73.7               | 74.3                 | 74.2                 | 74.0                 |
| Gross margin                                    | 26.4                 | 26.3               | 25.7                 | 25.8                 | 26.0                 |
| Selling, general and<br>administrative expenses | 20.6                 | 20.3               | 20.1                 | 20.5                 | 19.8                 |
| Depreciation and amortization                   | 1.3                  | 1.0                | 0.9                  | 0.9                  | 0.8                  |
| Income from operations                          | 4.5                  | 5.0                | 4.7                  | 4.4                  | 5.4                  |
| Interest expense, net                           | .8                   | .6                 | 0.5                  | 0.5                  | 0.5                  |
| Income before income taxes                      | 3.7                  | 4.4                | 4.2                  | 3.9                  | 4.9                  |
| Income tax provision                            | 1.5                  | 1.8                | 1.7                  | 1.6                  | 2.0                  |
| Net income                                      | 2.2%                 | 2.6%               | 2.5%                 | 2.3%                 | 2.9%                 |

## FISCAL 2000 COMPARED TO FISCAL 1999

Net sales increased 10.3% to \$759.0 million in fiscal 2000 from \$688.1 million in fiscal 1999. This increase resulted primarily from new store openings and relocations, and, to a lesser extent, a comparable store sales increase of .4% (calculated on a 52-week basis, excluding relocations, using all stores open at least one year), while impacted by the inclusion of an additional week of operations in fiscal 1999 (due to the Company's fiscal year-end policy). Comparable store sales performance was significantly affected by the sale of generators and other Y2K-related products in fiscal 1999. The Company substantially mitigated this impact through the successful promotion of special purchase merchandise selected for the maintenance needs of core customers. Also, the Company benefited from favorable cold weather in November and December which prompted improved sales of winter workwear and heating products. Excluding the effect of generator and other Y2K-related sales, comparable store sales increased 2.9% over fiscal 1999. The Company opened 35 new stores, closed 3 stores and relocated one store in fiscal 2000. The Company opened 31 new stores, closed one store and relocated one store in fiscal 1999. At December 30, 2000, the Company operated 305 retail farm stores versus 273 stores at the end of the prior fiscal year.

In fiscal 2001, the Company plans to upgrade and improve its existing stores including the relocation of 3 to 6 stores and major remodeling of 3 to 5 stores. The Company expects to open 25 new stores in fiscal 2001.

The gross margin rate increased .1 percentage point to 26.4% of sales in fiscal 2000 from 26.3% in fiscal 1999. In 1999, the Company experienced a significant change in the year-end mix of certain inventory items and achieved lower purchase costs for other inventory items. These factors contributed to a reduction in the expected LIFO provision and had the effect of increasing the 1999 gross margin rate by .3 percentage point. Exclusive of the favorable LIFO effect in 1999, the year 2000 gross margin improvement of .4% resulted from a reduction in product costs achieved through detailed product line reviews as well as improved product assortments accomplished through significant remerchandising efforts.

As a percent of sales, selling, general and administrative expenses increased .3 percentage point to 20.6% for fiscal 2000 from 20.3% for fiscal 1999. On an absolute basis, selling, general and administrative expenses increased 12.0% to \$156.5 million for fiscal 2000 from \$139.7 million in fiscal 1999. The increase in expenses on a percentage-of-sales basis is primarily a result of costs associated with new stores as well as the leverage loss attributable to the lower than anticipated comparable store sales performance. The increase in absolute dollars is primarily due to costs associated with new store openings (new stores have considerably higher occupancy costs, primarily rent, than the existing store base), as well as increased costs associated with the Company's expanded infrastructure (primarily larger distribution facilities and store support service capacity). These increases were offset, to some extent, by lower incentive accruals, one less week of operating expenses (fiscal 2000 reflects 52 weeks of operations compared to fiscal 1999 which is comprised of 53 weeks) and a non-recurring expense of approximately \$1 million in fiscal 1999 relating to the Company's relocation of two of its distribution centers.

During fiscal 2000, the Company continued its major media advertising program which includes a national television campaign featuring a celebrity spokesperson, significantly expanded use of radio promotions and increased print advertising. This program is partially funded each year through the support of the Company's vendor partners.

Depreciation and amortization expense increased 35.3% over the prior year due mainly to costs associated with new and relocated stores and increased investment in infrastructure (mainly the merchandise and warehouse management system).

Net interest expense increased 55.6% in fiscal 2000 from fiscal 1999. The increase in interest expense reflects additional borrowings under the senior credit facility to fund the Company's growth and expansion plans, resulting in a higher average outstanding debt balance in fiscal 2000 compared to fiscal 1999.

The Company's effective tax rate remained unchanged at 40.6% for both fiscal 2000 and fiscal 1999.

As a result of the foregoing factors, net income decreased 8.3% to \$16.4 million in fiscal 2000 from \$17.9 million in fiscal 1999. As a percent of sales, net income decreased .4 percentage point to 2.2% of sales in fiscal 2000 from 2.6% of sales in fiscal 1999.

#### **FISCAL 1999 COMPARED TO FISCAL 1998**

Net sales increased 14.6% to \$688.1 million in fiscal 1999 from \$600.7 million in fiscal 1998. This increase resulted primarily from new store openings and relocations, and, to a lesser extent, a comparable store sales increase of 4.4% (calculated on a 52-week basis, excluding relocations, using all stores open at least one year) and an additional week of operations (due to the Company's fiscal year-end). Comparable store sales for fiscal 1999 benefited from the "remerchandising" of the remaining approximately 60% of the inside of all stores, consisting of the entire "left-side" of the store (including tools, hardware, plumbing, electrical, paint, truck accessories, towing accessories and lubricant departments) and portions of the center aisle (mainly electrical fencing) and "agricultural sections" (including tractor parts and the equine department) as well as the new and more aggressive marketing programs. The Company opened 31 new stores, closed one store and relocated one store in fiscal 1999. The Company opened 15 new stores and relocated one store during fiscal 1998. At January 1, 2000, the Company operated 273 retail farm stores versus 243 stores at the end of the prior fiscal year.

The gross margin rate increased .6 percentage point to 26.3% of sales in fiscal 1999 from 25.7% in fiscal 1998. This increase is primarily due to remerchandising efforts and better product assortments, as well as lower costs from increased buying leverage through vendor consolidation. Also, in 1999, the Company experienced a significant change in the year-end mix of certain inventory items and achieved a lower purchase cost for other inventory items. These factors contributed to a reduction in the expected LIFO provision and had the effect of increasing the gross margin rate by .3 percentage point.



As a percent of sales, selling, general and administrative expenses increased .2 percentage point to 20.3% for fiscal 1999 from 20.1% for fiscal 1998. On an absolute basis, selling, general and administrative expenses increased 15.7% to \$139.7 million for fiscal 1999 from \$120.7 million in fiscal 1998. The increase in expenses on a percentage-of-sales basis is primarily as a result of costs associated with new stores, the incremental costs of certain planned infrastructure investments as well as the leverage loss attributable to the lower than anticipated comparable store sales performance. The increase in absolute dollars is primarily due to costs associated with new store openings (new stores have considerably higher occupancy costs, primarily rent, than the existing store base), as well as an additional week of operating expenses (fiscal 1999 reflects 53 weeks of operations compared to fiscal 1998 which is comprised of 52 weeks) and a non-recurring expense of approximately \$1 million relating to the Company's relocation of two of its distribution centers.

During fiscal 1998, the Company began an annual major media advertising program which includes a national television campaign featuring a celebrity spokesperson, significantly expanded use of radio promotions and increased print advertising. This program is partially funded each year through the support of the Company's vendor partners.

Depreciation and amortization expense increased 36.9% over the prior year due mainly to costs associated with new and relocated stores and increased investment in infrastructure (mainly the merchandise and warehouse management system).

Net interest expense increased 25.5% in fiscal 1999 from fiscal 1998. The increase in interest expense reflects additional borrowings under the credit agreement to fund the Company's growth and expansion plans, resulting in a higher average outstanding debt balance in fiscal 1999 compared to fiscal 1998.

The Company's effective tax rate decreased .9 percentage point to 40.6% in fiscal 1999 from 41.5% in fiscal 1998 primarily due to a lower effective state income tax rate in fiscal 1999.

As a result of the foregoing factors, net income increased 20.8% to \$17.9 million in fiscal 1999 from \$14.8 million in fiscal 1998. As a percent of sales, net income increased .1 percentage point to 2.6% of sales in fiscal 1999 from 2.5% of sales in fiscal 1998.

#### **LIQUIDITY AND CAPITAL RESOURCES**

In addition to normal operating expenses, the Company's primary ongoing cash requirements are those necessary for the Company's expansion, remodeling and relocation programs, including inventory purchases and capital expenditures. The Company's primary ongoing sources of liquidity are funds provided from operations, commitments available under its credit agreements and short-term trade credit. The Company's inventory and accounts payable levels typically build in the first and again in the third fiscal quarters in anticipation of the spring and fall selling seasons.

At December 30, 2000, the Company's inventories had increased \$15.2 million to \$222.5 million from \$207.3 million at January 1, 2000. This increase was primarily attributable to additional inventory for new stores and planned inventory increases in seasonal product lines, offset, to some extent, by improvements in inventory management achieved through an enhanced replenishment system (a 3.8% reduction in average inventory per store compared to January 1, 2000). Short-term trade credit, which represents a source of financing for inventory, increased \$10.5 million to \$70.3 million at December 30, 2000 from \$59.8 million at January 1, 2000. Trade credit arises from the Company's vendors granting extended payment terms for inventory purchases. Payment terms vary from 30 days to 180 days depending on the inventory product.

At December 30, 2000, the Company had working capital of \$133.7 million, which represented a \$16.4 million increase from January 1, 2000. This increase resulted primarily from an increase in inventory (attributable mainly to the factors described above) without a corresponding increase in accounts payable, an increase in prepaid expenses (mainly construction-in-progress costs pertaining to planned sale/leaseback transactions respecting certain 2000 and 2001 new stores), an increase in cash and cash equivalents, a decrease in income taxes payable and a decrease in current deferred income taxes. At January 1, 2000, the Company had working capital of \$117.3 million, which represented a \$21.8 million increase from December 26, 1998. This increase resulted primarily from an increase in inventory (primarily attributable to additional inventory for new stores, planned inventory increases in seasonal product lines, as well as unplanned inventory increases in certain basic goods and other seasonal product lines) without a corresponding increase in accounts payable, offset, in part, by an increase in accrued expenses (mainly incremental costs relating to new stores) and a decrease in cash and cash equivalents.

In November 2000, the Company entered into a three-year unsecured senior revolving credit facility with Bank of America, N.A., as agent for a lender group, (the "Senior Credit Facility") whereby the Company may borrow up to \$125 million. This credit facility was used to refinance all outstanding indebtedness under the existing revolving credit agreement. (The Company amended its then existing credit agreement in March 1998 and again in November 1999 to increase the maximum total commitments to \$60 million and \$75 million, respectively.) At December 30, 2000, the Company had \$50.0 million of borrowings outstanding under the Senior Credit Facility. The Company expects to continue borrowing amounts under the Senior Credit Facility from time to time to fund its growth and expansion programs and as a source of seasonal working capital.

In June 1998, the Company entered into a new unsecured loan agreement (the "Loan Agreement") and term note (the "Term Note") pursuant to which the Company borrowed \$15 million. In November 2000, in connection with the closing of the Senior Credit Facility, the Company amended the Loan Agreement and Term Note. The terms of the agreement were amended to provide that the existing indebtedness would both mature and bear interest under the same provision as that in the Senior Credit Facility and the restrictive covenants would be modified to be the same as those in the Senior Credit Facility.

Operations provided net cash of \$10.2 million in fiscal 2000, used net cash of \$7.7 million in fiscal 1999 and provided net cash of \$15.5 million in fiscal 1998. The generation of cash in fiscal 2000 resulted primarily from net income offset, in part, by inventories increasing at a faster rate than accounts payable compared to the prior year. The cash used in fiscal 1999 resulted primarily from inventories increasing at a faster rate than accounts payable compared to the prior year, offset, in part, by an increase in net income and an increase in accrued expenses (mainly incremental costs relating to new stores).

Cash used in investing activities of \$16.7 million, \$19.6 million and \$14.3 million for fiscal 2000, 1999 and 1998, respectively, resulted primarily from capital expenditures for new, relocated and remodeled stores and for new merchandise and warehouse management systems (in 1998 and, to a lesser extent, in 1999), partially offset by proceeds from the sale of certain properties (primarily land and buildings).

Financing activities in fiscal 2000 provided \$8.7 million in cash which represented a \$7.4 million decrease from the \$16.1 million in cash provided in fiscal 1999. This decrease resulted primarily from net borrowings of \$11.9 million under the revolving credit agreement in fiscal 2000 compared to net borrowings of approximately \$19.1 million in fiscal 1999. Financing activities in fiscal 1999 provided \$16.1 million in cash which represented a \$7.6 million increase over the \$8.5 million in cash provided in fiscal 1998. This increase resulted primarily from borrowings of \$19.1 million under the revolving credit agreement in fiscal 1999 compared to net repayments of approximately \$4.4 million in 1998 and borrowings of \$15.0 million under the Loan Agreement in fiscal 1998 offset, in part, by scheduled repayments under the Term Note, long-term debt and capital lease obligations totaling approximately \$3.5 million in fiscal 1999 versus approximately \$2.4 million in fiscal 1998.

The Company's capital additions were \$17.4 million, \$20.4 million and \$14.5 million in fiscal 2000, 1999 and 1998, respectively. The majority of the capital additions were for store fixtures, equipment and leasehold improvements for new stores and remodeling of existing stores as well as the merchandise and warehouse management systems. The Company expects that its capital expenditures for fiscal 2001 will be approximately \$17.0 million to \$19.0 million, consisting primarily of leasehold improvements and, to a lesser extent, fixtures and equipment, assuming successful

implementation of its growth strategy through approximately 25 planned new store openings, three to six relocations and three to five remodels. However, the Company cannot predict with certainty the amount of such expenditures because such new stores may be constructed, leased or acquired from others. The estimated cash required to open a new store is approximately \$.8 to \$1.0 million, the majority of which is for the initial acquisition of inventory and capital expenditures, principally leasehold improvements, fixtures and equipment, and the balance of which is for store opening expenses.

The Company believes that its cash flow from operations, borrowings available under the Senior Credit Facility and short-term trade credit will be sufficient to fund the Company's operations and its capital expenditure plans, including store openings and renovations, over the next several years.

Although the Company cannot accurately determine the precise effect of inflation on its operations, it does not believe its sales or results of operations have been materially affected by inflation. The Company has been successful, in many cases, in reducing or mitigating the effects of inflation principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases and selective buying from the most competitive vendors without sacrificing quality.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133," which deferred implementation of SFAS 133 by one year. Consequently, SFAS 133 will be effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

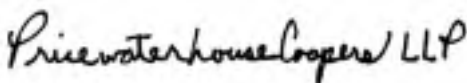
SFAS 133 requires all derivatives to be carried on the balance sheet at fair value. Changes in the fair value of derivatives must be recognized in the Company's Statements of Income when they occur; however, there is an exception for derivatives that qualify as hedges as defined by SFAS 133. If a derivative qualifies as a hedge, a company can elect to use "hedge accounting" to eliminate or reduce the income statement volatility that would arise from reporting changes in a derivative's fair value. Adoption of SFAS 133 is not expected to materially impact the Company's reported financial results.

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#### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and  
Stockholders of Tractor Supply Company

In our opinion, the accompanying balance sheets and the related statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Tractor Supply Company at December 30, 2000 and January 1, 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



Nashville, Tennessee  
January 24, 2001



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

|                                              | <b>For the fiscal year ended</b> |                            |                              |
|----------------------------------------------|----------------------------------|----------------------------|------------------------------|
|                                              | <b>December 30,<br/>2000</b>     | <b>January 1,<br/>2000</b> | <b>December 26,<br/>1998</b> |
| Net sales                                    | \$759,037                        | \$688,082                  | \$600,677                    |
| Cost of merchandise sold                     | 558,630                          | 506,831                    | 446,039                      |
| Gross profit                                 | 200,407                          | 181,251                    | 154,638                      |
| Selling, general and administrative expenses | 156,535                          | 139,725                    | 120,734                      |
| Depreciation and amortization                | 9,889                            | 7,311                      | 5,342                        |
| Income from operations                       | 33,983                           | 34,215                     | 28,562                       |
| Interest expense, net                        | 6,387                            | 4,104                      | 3,270                        |
| Income before income taxes                   | 27,596                           | 30,111                     | 25,292                       |
| Income tax provision                         | 11,206                           | 12,237                     | 10,492                       |
| Net income                                   | \$ 16,390                        | \$ 17,874                  | \$ 14,800                    |
| Net income per share - basic                 | \$ 1.87                          | \$ 2.04                    | \$ 1.69                      |
| Net income per share - assuming dilution     | \$ 1.87                          | \$ 2.02                    | \$ 1.68                      |

The accompanying notes are an integral part of this statement.

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

|                                                                                                                                                     | <b>For the fiscal year ended</b> |                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------|
|                                                                                                                                                     | <b>December 30,<br/>2000</b>     | <b>January 1,<br/>2000</b> |
| <b>Assets</b>                                                                                                                                       |                                  |                            |
| Current assets:                                                                                                                                     |                                  |                            |
| Cash and cash equivalents                                                                                                                           | \$ 9,145                         | \$ 6,991                   |
| Accounts receivable, net                                                                                                                            | 7,683                            | 6,765                      |
| Inventories                                                                                                                                         | 222,535                          | 207,325                    |
| Prepaid expenses                                                                                                                                    | 7,870                            | 4,845                      |
| Total current assets                                                                                                                                | <u>247,233</u>                   | <u>225,926</u>             |
| Land                                                                                                                                                | 6,449                            | 6,449                      |
| Buildings and improvements                                                                                                                          | 67,985                           | 58,135                     |
| Machinery and equipment                                                                                                                             | 49,304                           | 39,885                     |
| Construction in progress                                                                                                                            | 1,605                            | 4,514                      |
|                                                                                                                                                     | <u>125,343</u>                   | <u>108,983</u>             |
| Accumulated depreciation and amortization                                                                                                           | <u>(44,855)</u>                  | <u>(35,270)</u>            |
| Property and equipment, net                                                                                                                         | <u>80,488</u>                    | <u>73,713</u>              |
| Deferred income taxes                                                                                                                               | 1,112                            | 999                        |
| Other assets                                                                                                                                        | 3,463                            | 1,992                      |
| Total assets                                                                                                                                        | <u>\$ 332,296</u>                | <u>\$ 302,630</u>          |
| <b>Liabilities and Stockholders' Equity</b>                                                                                                         |                                  |                            |
| Current liabilities:                                                                                                                                |                                  |                            |
| Accounts payable                                                                                                                                    | \$ 70,294                        | \$ 59,764                  |
| Accrued expenses                                                                                                                                    | 33,929                           | 34,037                     |
| Current maturities of long-term debt                                                                                                                | 3,145                            | 3,048                      |
| Current portion of capital lease obligations                                                                                                        | 279                              | 279                        |
| Income taxes currently payable                                                                                                                      | 1,643                            | 4,135                      |
| Deferred income taxes                                                                                                                               | 4,212                            | 7,357                      |
| Total current liabilities                                                                                                                           | <u>113,502</u>                   | <u>108,620</u>             |
| Revolving credit loan                                                                                                                               | 50,007                           | 38,126                     |
| Term loan                                                                                                                                           | 7,679                            | 9,821                      |
| Other long-term debt                                                                                                                                | 2,452                            | 3,456                      |
| Capital lease obligations                                                                                                                           | 2,812                            | 3,280                      |
| Other long-term liabilities                                                                                                                         | 453                              | 487                        |
| Excess of fair value of assets acquired over cost less accumulated amortization of \$3,235 and \$3,055, respectively                                | 355                              | 535                        |
| Commitments (Note 5)                                                                                                                                |                                  |                            |
| Stockholders' equity:                                                                                                                               |                                  |                            |
| Common stock, 100,000,000 shares authorized; \$.008 par value; 8,792,527 and 8,769,106 shares issued and outstanding in 2000 and 1999, respectively | 70                               | 70                         |
| Additional paid-in capital                                                                                                                          | 43,009                           | 42,668                     |
| Retained earnings                                                                                                                                   | 111,957                          | 95,567                     |
| Total stockholders' equity                                                                                                                          | <u>155,036</u>                   | <u>138,305</u>             |
| Total liabilities and stockholders' equity                                                                                                          | <u>\$ 332,296</u>                | <u>\$ 302,630</u>          |

The accompanying notes are an integral part of this statement.

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**TRACTOR SUPPLY COMPANY STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

*(in thousands)*

|                                                                                | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid-In<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Total<br/>Stockholders'<br/>Equity</b> |
|--------------------------------------------------------------------------------|-------------------------|-------------------------------------------|------------------------------|-------------------------------------------|
| Stockholders' equity at<br>December 27, 1997                                   | \$70                    | \$41,926                                  | \$ 62,893                    | \$104,889                                 |
| Issuance of common stock under employee<br>stock purchase plan (16,887 shares) |                         | 287                                       |                              | 287                                       |
| Net income                                                                     |                         |                                           | 14,800                       | 14,800                                    |
| Stockholders' equity at<br>December 26, 1998                                   | 70                      | 42,213                                    | 77,693                       | 119,976                                   |
| Issuance of common stock under employee<br>stock purchase plan (13,752 shares) |                         | 298                                       |                              | 298                                       |
| Exercise of stock options (7,249 shares)                                       |                         | 157                                       |                              | 157                                       |
| Net income                                                                     |                         |                                           | 17,874                       | 17,874                                    |
| Stockholders' equity at<br>January 1, 2000                                     | 70                      | 42,668                                    | 95,567                       | 138,305                                   |
| Issuance of common stock under employee<br>stock purchase plan (23,421 shares) |                         | 341                                       |                              | 341                                       |
| Net income                                                                     |                         |                                           | 16,390                       | 16,390                                    |
| Stockholders' equity at<br>December 30, 2000                                   | \$70                    | \$43,009                                  | \$111,957                    | \$155,036                                 |

The accompanying notes are an integral part of this statement.

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

|                                                                                             | <b>For the fiscal year ended</b> |                            |                              |
|---------------------------------------------------------------------------------------------|----------------------------------|----------------------------|------------------------------|
|                                                                                             | <b>December 30,<br/>2000</b>     | <b>January 1,<br/>2000</b> | <b>December 26,<br/>1998</b> |
| Cash flows from operating activities:                                                       |                                  |                            |                              |
| Net income                                                                                  | \$16,390                         | \$17,874                   | \$14,800                     |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                  |                            |                              |
| Depreciation and amortization                                                               | 9,889                            | 7,311                      | 5,342                        |
| Loss (gain) on disposition of property and equipment                                        | (241)                            | (104)                      | 1,353                        |
| Deferred income taxes                                                                       | (3,258)                          | (180)                      | (1,816)                      |
| Change in assets and liabilities:                                                           |                                  |                            |                              |
| Accounts receivable                                                                         | (918)                            | (1,187)                    | (398)                        |
| Inventory                                                                                   | (15,210)                         | (35,576)                   | (20,000)                     |
| Prepaid expenses                                                                            | (3,025)                          | 1,456                      | (2,100)                      |
| Accounts payable                                                                            | 10,530                           | (1,136)                    | 8,192                        |
| Accrued expenses                                                                            | (108)                            | 4,427                      | 8,422                        |
| Income taxes currently payable                                                              | (2,492)                          | 1                          | 1,824                        |
| Other                                                                                       | (1,384)                          | (605)                      | (131)                        |
| Net cash provided by (used in) operating activities                                         | 10,173                           | (7,719)                    | 15,488                       |
| Cash flows from investing activities:                                                       |                                  |                            |                              |
| Capital expenditures                                                                        | (17,358)                         | (20,368)                   | (14,505)                     |
| Proceeds from sale of property and equipment                                                | 634                              | 816                        | 233                          |
| Net cash used in investing activities                                                       | (16,724)                         | (19,552)                   | (14,272)                     |
| Cash flows from financing activities:                                                       |                                  |                            |                              |
| Net borrowings (repayment) under revolving credit agreement                                 | 11,881                           | 19,126                     | (4,419)                      |
| Borrowings under term loan agreement                                                        | ---                              | ---                        | 15,000                       |
| Repayments under term loan agreement                                                        | (2,142)                          | (1,965)                    | (893)                        |
| Principal payments under capital lease obligations                                          | (468)                            | (560)                      | (731)                        |
| Repayments of long-term debt                                                                | (907)                            | (995)                      | (736)                        |
| Net proceeds from issuance of common stock                                                  | 341                              | 455                        | 287                          |
| Net cash provided by financing activities                                                   | 8,705                            | 16,061                     | 8,508                        |
| Net increase (decrease) in cash                                                             | 2,154                            | (11,210)                   | 9,724                        |
| Cash and cash equivalents at beginning of year                                              | 6,991                            | 18,201                     | 8,477                        |
| Cash and cash equivalents at end of year                                                    | \$ 9,145                         | \$ 6,991                   | \$18,201                     |

**Supplemental Disclosures of Cash Flow Information (Note 1):**

Cash paid during the year for:

|              |          |          |          |
|--------------|----------|----------|----------|
| Interest     | \$ 6,423 | \$ 4,026 | \$ 3,231 |
| Income taxes | 16,324   | 12,937   | 10,310   |

Non-cash investing and financing activities:

|                         |     |       |     |
|-------------------------|-----|-------|-----|
| Capital lease-buildings | --- | 1,581 | --- |
|-------------------------|-----|-------|-----|

The accompanying notes are an integral part of this statement.

**ROA\_004040**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:*****Nature of Business***

Tractor Supply Company is a specialty retailer which supplies the daily farm and ranch maintenance needs of its target customers: hobby, part-time and full-time farmers and ranchers, as well as suburban customers, contractors and tradesmen. The Company, which was founded in 1938, operated 305 retail farm stores in 28 states as of December 30, 2000.

***Fiscal Year***

The Company's fiscal year ends on the Saturday closest to December 31. Fiscal years 2000 and 1998 consist of 52 weeks, while fiscal year 1999 consists of 53 weeks.

***Management Estimates***

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

***Revenue Recognition***

The Company recognizes revenue at the time of customer purchase.

***Cash Flows***

The Company considers temporary cash investments, with an original maturity of three months or less, to be cash equivalents.

***Fair Value of Financial Instruments***

The Company has cash and cash equivalents, short-term trade receivables and payables and long-term debt instruments, including capital leases. The carrying values of cash and cash equivalents, trade receivables and trade payables equal current fair value. The terms of the Company's revolving credit agreement and term loan agreement include variable interest rates, which approximate current market rates. The Company's fixed rate debt has an approximate current value of \$3.6 million, bearing interest at 10.32% which is above current rates available; however, the related debt agreement includes certain pre-payment penalties which make refinancing uneconomical (Notes 2, 3 and 4).

***Interest Rate Swap Agreement***

The Company has entered into an interest rate swap agreement as a means of managing its interest rate exposure. This agreement has the effect of converting certain of the Company's variable rate obligations to fixed rate obligations. Net amounts paid or received are reflected as adjustments to interest expense. The fair value of the swap agreement is not recognized in the financial statements, since it is accounted for as a hedge.

***Inventories***

Inventories, which consist primarily of farm maintenance and animal and pet products, general maintenance products, lawn and garden products, light truck equipment and work clothing, are stated at cost, which is less than market value, with cost being determined on the last-in, first-out (LIFO) method. If the first-in, first-out (FIFO) method of accounting for inventory had been used, inventories would have been approximately \$5,056,000 and \$4,680,000 higher than reported at December 30, 2000 and January 1, 2000, respectively.

***Freight Costs***

The Company incurs various types of transportation and delivery costs in connection with inventory purchases and distribution. Such costs are included as a component of the overall cost of merchandise when sold.

***Impairment of Long-Lived Assets***

The Company reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. An impairment is recognized to the extent the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. Accordingly, when the Company commits to relocate or close a store, the estimated unrecoverable costs are charged to operating expenses. Such costs include the estimated loss on the sale of land and buildings, the book value of abandoned fixtures, equipment and leasehold improvements, and a provision for the present value of future lease obligations, less estimated sub-lease income.

**Property and Equipment**

The Company owns the land and buildings for 69 of its stores. Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The Company's buildings, furniture, fixtures and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Improvements to leased premises are amortized using the straight-line method over the life of the lease or the useful life of the improvement, whichever is shorter. The Company's property and equipment is depreciated using the following estimated useful lives:

|                                  | <u>Life</u> |
|----------------------------------|-------------|
| Buildings                        | 30-35 years |
| Leasehold improvements           | 5-15 years  |
| Furniture, fixture and equipment | 5-10 years  |
| Computer software                | 3-5 years   |

**Store Opening Costs**

Non-capital expenditures incurred in connection with opening new stores are expensed as incurred.

**Advertising Costs**

Advertising costs consist of expenses incurred in connection with newspaper circulars, television and radio, as well as newspaper advertisements and other promotions. Expenses incurred are charged to operations at the time the related advertising first takes place. Advertising expenses exclusive of vendor-provided funding for fiscal 2000, 1999 and 1998 were approximately \$8,063,000, \$8,806,000, and, \$9,239,000, respectively.

**Income Taxes**

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

**Excess of Fair Value of Assets Acquired Over Cost**

On December 26, 1982, the Company began operations with the acquisition of certain assets and assumption of certain obligations. The unallocated excess of fair value of assets acquired over cost was approximately \$3,590,000 and is being amortized over 20 years on a straight-line basis.

**Stock-based Compensation Plans**

Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," encourages the use of a fair-value-based method of accounting. As allowed by SFAS 123, the Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB No.25"), "Accounting for Stock Issued to Employees." Under APB No. 25, compensation expense would be recorded on the date of grant if the current market price of the underlying stock exceeded the exercise price. The Company has adopted the disclosure requirements of SFAS 123.

**Net Income Per Share**

Statement of Financial Accounting Standards No. 128 - Earnings per Share ("SFAS 128") requires companies with complex capital structures that have publicly held common stock or common stock equivalents to present both basic and diluted earning per share ("EPS") on the face of the income statement. As provided by SFAS 128, basic EPS is calculated as income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted EPS is calculated using the "if converted" method for convertible securities and the treasury stock method for options and warrants as prescribed by APB 15 (Note 8).

**NOTE 2 - REVOLVING CREDIT AGREEMENT:**

In November 2000, the Company entered into a three-year unsecured senior revolving credit facility with Bank of America, N.A., as agent for a lender group, (the "Senior Credit Facility") whereby the Company may borrow up to \$125 million. This credit facility was used to refinance all outstanding indebtedness under the existing revolving credit agreement. All borrowings under the Senior Credit Facility bear interest, at the Company's option at either the base rate of the agent (9.50% at December 30, 2000) or the LIBOR rate (6.40% at December 30, 2000) plus an additional amount ranging from .75% to 1.5%, adjusted quarterly based on Company performance (1.25% at December 30, 2000) per annum. The Company is also required to pay, quarterly in arrears, a commitment fee ranging from .20% to .35% per annum, adjusted quarterly based on Company performance, on the average daily unused portion of the credit line. There are no compensating balance requirements associated with the Credit Facility.

The Senior Credit Facility contains certain restrictions regarding additional indebtedness; capital expenditures; business operations; guarantees; investments; mergers, consolidations and sales of assets; transactions with subsidiaries or affiliates; and liens. In addition, the Company must comply with certain quarterly restrictions (based on a rolling four-quarters basis) regarding net worth, leverage ratio, fixed charge coverage and current ratio requirements. The Company was in compliance with all covenants at December 30, 2000.

In November 1999, the Company entered into an amendment (the "Third Amendment") to its revolving credit agreement, whereby the Company (i) increased the maximum total commitments available thereunder from \$60 million to \$75 million. There were no changes to any of the other material terms and conditions of the revolving credit agreement as a result of the Third Amendment.

In March 1998, the Company entered into an amendment (the "Second Amendment") to its revolving credit agreement, whereby the Company (i) increased the maximum total commitments available thereunder from \$45 million to \$60 million and (ii) extended the expiration date of the revolving credit agreement from August 31, 1999 to August 31, 2002 (the date upon which any remaining borrowings must be repaid). There were no changes to any of the other material terms and conditions of the revolving credit agreement as a result of the Second Amendment, provided, however, that the financial covenants must be tested quarterly as of the end of each fiscal quarter, based on a rolling four-quarters basis, rather than at the end of each fiscal year.

**NOTE 3 - TERM LOAN AGREEMENT:**

In June 1998, the Company entered into a new loan agreement (the "Loan Agreement") and term note (the "Term Note") pursuant to which the Company borrowed \$15 million. The Term Note bears interest at the rate of 6.75% per annum until its maturity in June 2005. The Term Note requires monthly payments equal to \$178,572, plus accrued interest, through June 2005. There are no compensating balance requirements associated with the Loan Agreement. The Loan Agreement is unsecured. In November 2000, in connection with the closing of the Senior Credit Facility, the Company amended the Loan Agreement and Term Note. The terms of the agreement were amended to provide that the existing indebtedness would both mature and bear interest under the same provision as that in the Senior Credit Facility and the restrictive covenants would be modified to be the same as those in the Senior Credit Facility (Note 2). The Company was in compliance with all covenants at December 30, 2000.

**NOTE 4 - OTHER LONG-TERM DEBT:**

Other long-term debt consists of the following (in thousands):

|                          | December 30,<br>2000 | January 1,<br>2000 |
|--------------------------|----------------------|--------------------|
| Mortgage Notes           | \$3,456              | \$4,361            |
| Less: current maturities | (1,004)              | (905)              |
|                          | <u>\$2,452</u>       | <u>\$3,456</u>     |



In April 1988, the Company issued notes (the "Mortgage Notes") pursuant to a Note Agreement which was amended in April 1991, February 1992 and July 1993 (the "Mortgage Loan Agreement"). The Mortgage Notes bear interest at a minimum 10.32% rate until their maturity in January 2004. The Mortgage Notes require monthly payments, including interest, of approximately \$109,000 through January 2004.

The Mortgage Loan Agreement is secured by first mortgages on certain of the Company's existing properties. The Mortgage Loan Agreement contains certain restrictions regarding sales of assets, mergers, consolidations, investments, sales or discounting of receivables, operating leases and, unless the Company satisfies certain net income, indebtedness and tangible net worth tests, cash dividends on and redemptions of capital stock. In addition, the Company must comply with certain restrictions regarding tangible net worth, working capital, funded debt, ratios of indebtedness to capitalization, FIFO inventory to current debt, interest coverage, fixed charge coverage, earnings coverage and current ratio requirements. The Company was in compliance with all covenants at December 30, 2000.

The combined aggregate maturities of the Mortgage Notes are as follows (in thousands):

|      |         |
|------|---------|
| 2001 | \$1,004 |
| 2002 | 1,111   |
| 2003 | 1,232   |
| 2004 | 109     |

#### NOTE 5 - LEASES:

The Company leases office, warehouse/distribution and retail space, transportation equipment and other equipment under various noncancelable operating leases. The leases have varying terms and expire at various dates through October 2017. The store leases typically have initial terms of between 10 and 15 years, with one to three renewal periods of five years each, exercisable at the Company's option. Generally, most of the leases require the Company to pay taxes, insurance and maintenance costs.

Total rent expense for fiscal 2000, 1999 and 1998 was approximately \$31,620,000, \$25,453,000, and \$22,811,000, respectively.

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

|                                              | Capital<br>Leases | Operating<br>Leases |
|----------------------------------------------|-------------------|---------------------|
| 2001                                         | \$ 581            | \$ 29,433           |
| 2002                                         | 581               | 26,627              |
| 2003                                         | 579               | 25,380              |
| 2004                                         | 536               | 23,888              |
| 2005                                         | 497               | 22,998              |
| Thereafter                                   | 3,857             | 120,420             |
| Total minimum lease payments                 | 6,631             | \$248,746           |
| Amount representing interest                 | (3,540)           |                     |
| Present values of net minimum lease payments | 3,091             |                     |
| Less: current portion                        | (279)             |                     |
| Long-term capital lease obligations          | \$2,812           |                     |

**NOTE 6 - INCOME TAXES:**

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

|                       | 2000     | 1999     | 1998      |
|-----------------------|----------|----------|-----------|
| Current tax expense:  |          |          |           |
| Federal               | \$11,200 | \$ 9,774 | \$ 10,111 |
| State                 | 3,264    | 2,643    | 2,197     |
| Total current         | 14,464   | 12,417   | 12,308    |
| Deferred tax expense: |          |          |           |
| Federal               | (2,337)  | (172)    | (1,671)   |
| State                 | (921)    | (8)      | (145)     |
| Total deferred        | (3,258)  | (180)    | (1,816)   |
| Total provision       | \$11,206 | \$12,237 | \$10,492  |

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

|                                           | December 30,<br>2000 | January 1,<br>2000 |
|-------------------------------------------|----------------------|--------------------|
| Current tax assets:                       |                      |                    |
| Inventory valuation                       | \$ 4,288             | \$ 5,647           |
| Other                                     | 2,779                | 2,081              |
|                                           | 7,067                | 7,728              |
| Current tax liabilities:                  |                      |                    |
| Inventory basis difference                | 10,565               | 14,230             |
| Other                                     | 714                  | 855                |
|                                           | 11,279               | 15,085             |
| Net current tax liabilities               | \$ 4,212             | \$ 7,357           |
| Non-current tax assets:                   |                      |                    |
| Capital lease obligation basis difference | \$ 1,368             | \$ 1,338           |
| Fixed assets basis difference             | 170                  | 274                |
| Other                                     | 2,317                | 1,907              |
|                                           | 3,855                | 3,519              |
| Non-current tax liabilities:              |                      |                    |
| Depreciation                              | 1,868                | 1,569              |
| Capital lease assets basis difference     | 875                  | 951                |
|                                           | 2,743                | 2,520              |
| Net non-current tax assets                | \$ 1,112             | \$ 999             |

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

|                                                | 2000            | 1999            | 1998            |
|------------------------------------------------|-----------------|-----------------|-----------------|
| Tax provision at statutory rate                | \$ 9,659        | \$10,539        | \$ 8,852        |
| Tax effect of:                                 |                 |                 |                 |
| State income taxes, net of federal tax benefit | 1,577           | 1,721           | 1,432           |
| Amortization of negative goodwill              | (73)            | (63)            | (63)            |
| Other                                          | 43              | 40              | 271             |
|                                                | <u>\$11,206</u> | <u>\$12,237</u> | <u>\$10,492</u> |

#### NOTE 7 - CAPITAL STOCK:

The authorized capital stock of the Company consists of common stock and preferred stock. In April 1997, the stockholders of the Company approved an amendment to the Company's Restated Certificate of Incorporation, as amended, to increase the number of authorized shares of Common Stock from 9,500,000 shares to 100,000,000 shares. The Company is also authorized to issue 40,000 shares of Preferred Stock, with such designations, rights and preferences as may be determined from time to time by the Board of Directors.

**NOTE 8 – NET INCOME PER SHARE:**

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

|                                    | <b>2000</b>   |               |                         |
|------------------------------------|---------------|---------------|-------------------------|
|                                    | <b>Income</b> | <b>Shares</b> | <b>Per Share Amount</b> |
| Basic net income per share:        |               |               |                         |
| Net income                         | \$16,390      | 8,782         | \$1.87                  |
| Dilutive stock options outstanding |               | 0             |                         |
| Diluted net income per share       | \$16,390      | 8,782         | \$1.87                  |

|                                    | <b>1999</b>   |               |                         |
|------------------------------------|---------------|---------------|-------------------------|
|                                    | <b>Income</b> | <b>Shares</b> | <b>Per Share Amount</b> |
| Basic net income per share:        |               |               |                         |
| Net income                         | \$17,874      | 8,761         | \$2.04                  |
| Dilutive stock options outstanding |               | 75            |                         |
| Diluted net income per share       | \$17,874      | 8,836         | \$2.02                  |

|                                    | <b>1998</b>   |               |                         |
|------------------------------------|---------------|---------------|-------------------------|
|                                    | <b>Income</b> | <b>Shares</b> | <b>Per Share Amount</b> |
| Basic net income per share:        |               |               |                         |
| Net income                         | \$14,800      | 8,742         | \$1.69                  |
| Dilutive stock options outstanding |               | 68            |                         |
| Diluted net income per share       | \$14,800      | 8,810         | \$1.68                  |

**NOTE 9 – RELATED PARTY TRANSACTIONS:**

In 1986, the Company entered into capitalized sale-leaseback transactions with certain officers of the Company for seven of its stores. The Company sold, leased back and provided the financing for these properties at estimated fair values totaling \$2,575,000. The related gains arising from the sale of these properties have been deferred and are being amortized on a straight-line basis over the terms of the related leases. Properties under capital leases acquired through sale-leaseback transactions have been reduced by the related deferred gains on the properties and are classified with property and equipment. The leases have basic terms of 20 years with options to renew for two successive five-year terms. The Company has an option to purchase the leased properties after December 31, 1995. Rent payments under these leases were approximately \$393,000 in fiscal 2000 and \$425,000 in 1999 and 1998. All the officers have repaid their outstanding obligations under these notes to the Company. In June 2000, the Company closed operations at one of these seven facilities. In December 2000, the Company paid \$200,000 to terminate the lease on the facility. The balance of the remaining six capitalized lease obligations, included in total capital lease obligations at December 30, 2000, was \$1,033,000.

The Company leases its management headquarters from a partnership in which certain stockholders of the Company are general partners. In December 2000, the management headquarters was sold to an unrelated third party. The remaining lease term is six years, with the Company having exercised both remaining five-year renewal options in fiscal 1996, with monthly rent set at \$35,000 and \$39,000 per month, respectively. Rent payments under this lease were \$420,000 (\$385,000 paid to the related party), \$420,000 and \$417,000 in 2000, 1999 and 1998, respectively.

#### **NOTE 10 - RETIREMENT BENEFIT PLAN:**

The Company has a defined contribution benefit plan, the Tractor Supply Company Restated 401(k) Retirement Plan (the "Plan"), which provides retirement and other benefits for the Company's employees. Employees become eligible for participation at age 21 and upon completion of 12 consecutive months of employment and 1,000 hours or more of service. The Company matches 100% of the employee's elective contributions up to 3% of the employee's compensation plus 50% of the employee's elective contributions from 3% to 7% of the employee's compensation. In no event shall the total Company match made on behalf of the employee exceed 5% of the employee's compensation in any Plan year. Through January 1, 2000, the employee's contribution is vested 20% each year starting at two years of service. Effective January 1, 2000, the Company amended the Plan ("Amendment No. 2"). In accordance with Amendment No. 2, the Company matches 100% of the employee's elective contributions up to 3% of the employee's compensation plus 50% of the employee's elective contributions from 3% to 6% of the employee's compensation. In no event shall the total Company match made on behalf of the employee exceed 4.5% of the employee's compensation. All employer contributions are immediately 100% vested. Company contributions to the Plan during fiscal 2000, 1999 and 1998 were approximately \$521,000 (net of applied forfeitures of \$677,000), \$969,000 and \$822,000, respectively.

#### **NOTE 11 - STOCK-BASED COMPENSATION PLANS:**

##### ***Fixed Stock Option Plan***

The Company has a stock option plan for officers, directors (including non-employee directors) and key employees which reserves 1,000,000 shares of common stock for future issuance under the plan. According to the terms of the Plan, the per share exercise price of options granted shall not be less than the fair market value of the stock on the date of grant and such options will expire no later than ten years from the date of grant. In the case of a stockholder owning more than 10% of the outstanding voting stock of the Company, the exercise price of an incentive stock option may not be less than 110% of the fair market value of the stock on the date of grant and such options will expire no later than five years from the date of grant. Also, the aggregate fair market value of the stock with respect to which incentive stock options are exercisable on a tax deferred basis for the first time by an individual in any calendar year may not exceed \$100,000. Options granted generally vest one-third each year beginning on the third anniversary date of the grant and expire after ten years, provided, however, that options granted to non-employee directors vest one-third each year beginning on the first anniversary of the grant.

Plan activity is summarized as follows:

|                                  | <b>Number of<br/>Shares</b> | <b>Weighted Average<br/>Exercise Price</b> |
|----------------------------------|-----------------------------|--------------------------------------------|
| Outstanding at December 27, 1997 | 500,000                     | \$19.47                                    |
| Granted                          | 48,000                      | \$16.67                                    |
| Canceled                         | (33,250)                    | \$19.49                                    |
| Outstanding at December 26, 1998 | 514,750                     | \$19.21                                    |
| Exercised                        | (7,249)                     | \$21.66                                    |
| Granted                          | 218,000                     | \$25.58                                    |
| Canceled                         | (124,001)                   | \$20.91                                    |
| Outstanding at January 1, 2000   | 601,500                     | \$21.14                                    |
| Granted                          | 371,000                     | \$14.13                                    |
| Canceled                         | (135,667)                   | \$19.02                                    |
| Outstanding at December 30, 2000 | 836,833                     | \$18.38                                    |

The following table summarizes information concerning currently outstanding and exercisable options:

| <b>Year</b> | <b>Range of<br/>Exercise Prices</b> | <b>Number<br/>Outstanding</b> | <b>Options Outstanding</b>                                         |                                                    | <b>Options<br/>Exercisable</b> |
|-------------|-------------------------------------|-------------------------------|--------------------------------------------------------------------|----------------------------------------------------|--------------------------------|
|             |                                     |                               | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |                                |
| 1994        | \$21.50 - \$27.00                   | 14,000                        | 3.18                                                               | \$21.89                                            | 14,000                         |
| 1995        | \$21.31 - \$22.13                   | 22,250                        | 4.09                                                               | \$22.08                                            | 22,250                         |
| 1996        | \$21.38 - \$25.13                   | 58,750                        | 5.10                                                               | \$21.89                                            | 39,692                         |
| 1997        | \$17.75 - \$20.00                   | 230,333                       | 6.50                                                               | \$18.48                                            | 82,040                         |
| 1998        | \$14.44 - \$24.31                   | 19,000                        | 7.16                                                               | \$18.34                                            | 1,340                          |
| 1999        | \$18.56 - \$26.75                   | 154,500                       | 8.09                                                               | \$25.48                                            | 3,795                          |
| 2000        | \$14.94 - \$15.16                   | 288,000                       | 9.08                                                               | \$14.94                                            | 0                              |
| 2000        | \$ 8.95                             | 50,000                        | 9.84                                                               | \$8.95                                             | 0                              |
|             |                                     | 836,833                       |                                                                    |                                                    | 163,117                        |

Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed by FASB Statement No. 123, the Company's proforma net income and net income per share, for fiscal 2000, 1999 and 1998, would have been as follows (in thousands, except per share amounts):

|                                |             | 2000     | 1999     | 1998     |
|--------------------------------|-------------|----------|----------|----------|
| Net income                     | As reported | \$16,390 | \$17,874 | \$14,800 |
|                                | Proforma    | \$15,667 | \$17,179 | \$14,271 |
| Net income per share - basic   | As reported | \$1.87   | \$2.04   | \$1.69   |
|                                | Proforma    | \$1.79   | \$1.96   | \$1.63   |
| Net income per share - diluted | As reported | \$1.87   | \$2.02   | \$1.68   |
|                                | Proforma    | \$1.79   | \$1.94   | \$1.62   |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions.

|                               | 2000    | 1999    | 1998   |
|-------------------------------|---------|---------|--------|
| Expected volatility           | 39.8%   | 37.8%   | 33.3%  |
| Risk-free interest rate       | 5.5%    | 6.5%    | 6.0%   |
| Average expected life (years) | 7.25    | 7.5     | 9.14   |
| Dividend yield                | 0%      | 0%      | 0%     |
| Weighted average fair value   | \$ 7.11 | \$12.95 | \$9.26 |

#### **EMPLOYEE STOCK PURCHASE PLAN**

The Company provides an Associate Stock Purchase Plan (the "ASPP") whereby eligible employees of the Company have the opportunity to purchase, through payroll deductions, shares of common stock of the Company at a 15% discount. Pursuant to the terms of the ASPP, the Company issued 23,421, 13,752 and 16,887 shares of common stock in fiscal 2000, 1999 and 1998, respectively.



## DIRECTORS

**Joseph H. Scarlett, Jr.**  
Chairman of the Board  
and Chief Executive Officer  
Tractor Supply Company

**Thomas O. Flood**  
Retired Senior Vice President  
Tractor Supply Company

**Joseph D. Maxwell (3)**  
Retired Vice President  
Tractor Supply Company

**S.P. Braud (1)\*(2)\*(3)**  
Retired Chief Financial Officer  
Service Merchandise Company, Inc.  
and President and Director  
Braud Design/Build, Inc.

**Gerard E. Jones (1) (2) (3)\***  
Senior Partner  
Richards & O'Neil, LLP

**Sam K. Reed (1)(2)**  
Chief Executive Officer  
Keebler Foods Company

**Joseph M. Rodgers (1) (2)**  
Chairman of the Board  
The JMR Group, an investment firm,  
and former U.S.  
Ambassador to France

- (1) *Audit Committee*  
(2) *Compensation Committee*  
(3) *Nominating Committee*  
(\*) *Committee Chairman*

## OFFICERS

**Joseph H. Scarlett, Jr.**  
Chairman of the Board and  
Chief Executive Officer

**James F. Wright**  
President and Chief  
Operating Officer

**Gerald W. Brase**  
Senior Vice President-  
Merchandising

**Calvin B. Massmann**  
Senior Vice President-  
Chief Financial Officer  
and Treasurer

**Stanley L. Ruta**  
Senior Vice President-  
Store Operations

**John W. Atkins**  
Vice President-Information  
Technology

**Blake A. Fohl**  
Vice President-Marketing

**Mark D. Gillman**  
Vice President-Store Operations

**Lawrence Goldberg**  
Vice President-Logistics

**Stephen E. Hull**  
Vice President-Real Estate

**David C. Lewis**  
Vice President-Controller and  
Corporate Secretary

**Gary M. Magoni**  
Vice President-Store Operations

**Store Support Center**

Tractor Supply Company  
320 Plus Park Boulevard  
Nashville, Tennessee 37217  
(615) 366-4600

**Transfer Agent and Registrar**

Fleet National Bank  
c/o EquiServe  
P.O. Box 43010  
Providence, RI 02940-3010  
(781) 575-3400

**Independent Accountants**

PricewaterhouseCoopers LLP  
4400 Harding Road  
Nashville, Tennessee 37205

**Stock Exchange Listing**

The Nasdaq National Market  
Ticker Symbol: TSCO

**Internet Address**

[www.tractorsupplyco.com](http://www.tractorsupplyco.com)

**Annual Meeting**

The Annual Meeting of Stockholders will be held at 10:00 a.m., April 26, 2001 at the Company's Store Support Center, 320 Plus Park Boulevard, Nashville, Tennessee, 37217

**Number of Stockholders**

As of January 31, 2001 there were approximately 76 stockholders of record. This number excludes individual stockholders holding stock under nominee security position listings.

**Form 10-K**

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be sent to any stockholder upon written request to the Company.

**Quarterly Stock Price Range**

|                     | <b>High</b> | <b>Low</b> |
|---------------------|-------------|------------|
| <b>Fiscal 2000:</b> |             |            |
| First Quarter       | \$21.00     | \$14.63    |
| Second Quarter      | \$22.00     | \$12.00    |
| Third Quarter       | \$17.19     | \$ 9.69    |
| Fourth Quarter      | \$11.06     | \$ 6.50    |
| <b>Fiscal 1999:</b> |             |            |
| First Quarter       | \$30.25     | \$20.63    |
| Second Quarter      | \$30.50     | \$25.00    |
| Third Quarter       | \$28.63     | \$17.56    |
| Fourth Quarter      | \$20.88     | \$12.75    |



Tractor Supply Company  
320 Plus Park Boulevard  
Nashville, Tennessee 37217  
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ROA\_004053

SCDOR\_006487

# TRACTOR SUPPLY CO /DE/

## FORM 10-K (Annual Report)

Filed 3/24/2000 For Period Ending 1/1/2000

|             |                                                  |
|-------------|--------------------------------------------------|
| Address     | 320 PLUS PARK BLVD<br>NASHVILLE, Tennessee 37217 |
| Telephone   | 615-366-4600                                     |
| CIK         | 0000916365                                       |
| Industry    | Retail (Home Improvement)                        |
| Sector      | Services                                         |
| Fiscal Year | 12/26                                            |

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-K

(Mark One)

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

For the fiscal year ended January 1, 2000

OR

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

For the transition period from to

Commission file number 000-23314

## TRACTOR SUPPLY COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Delaware

13-3139732

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

320 Plus Park Boulevard, Nashville, Tennessee

37217

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

Registrant's Telephone Number, Including Area Code:

(615) 366-4600  
-----

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

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

**Common Stock, \$.008 par value**

-----  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

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

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 National Market on January 31, 2000 was \$49,431,078. For purposes of this response, the registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of its Common Stock are the affiliates of the registrant.

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

Class

Outstanding at January 31, 2000

-----  
Common Stock, \$.008 par value

-----  
8,774,198

ROA\_004055

SCDOR\_006489



## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 27, 2000 are incorporated by reference into

Part III of this Form 10-K. Portions of the Registrant's Annual Report to

Stockholders for the fiscal year ended January 1, 2000 are incorporated by reference into Parts II and IV of this Form 10-K.

## FORWARD-LOOKING STATEMENTS OR INFORMATION

This Form 10-K includes certain statements that may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements included or incorporated by reference in this Form 10-K which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), business strategy, expansion and growth of the Company's business and operations and other such matters are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions within the bounds of its knowledge of its business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by or on behalf of the Company. Many of these factors have previously been identified in filings or statements made by or on behalf of the Company.

All phases of the Company's operations are subject to influences outside its control. Any one, or a combination, of which could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, inflation, consumer debt levels, pricing and other competitive factors, changes in freight rates, the timing and acceptance of new products in the stores, the mix of goods sold, interest rate fluctuations and other capital market and economic conditions in general, Year 2000 issues, unemployment levels and the seasonality of the Company's business. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these and other cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

## PART I

### ITEM 1. BUSINESS

#### Overview

Tractor Supply Company, a Delaware corporation ("TSC" or the "Company"), is a specialty retailer which supplies the daily farming and maintenance needs of its target customers: hobby, part-time and full-time farmers and ranchers, as well as rural customers, contractors and tradesmen. The Company operates one of the largest retail farm store chains in the United States. TSC's 273 stores, located in 26 states, typically range in size from 12,000 to 14,000 square feet of inside selling space and utilize at least as many square feet of outside selling space. Stores are located in rural communities and in the outlying areas of large cities where the rural lifestyle is a significant factor in the local economy.

The Company meets the daily farming and maintenance needs of its target customers with a comprehensive selection of farm maintenance products (fencing, tractor parts and accessories, agricultural spraying equipment and tillage parts); animal and pet products (specialty feeds, supplements, equine supplies, medicines, veterinary supplies and livestock feeders); general maintenance products (air compressors, welders, generators, pumps, plumbing and tools); lawn and garden products (riding mowers, tillers and fertilizers); light truck equipment; work clothing and other products. The Company does not sell large tractors, combines, bulk chemicals or bulk fertilizers. The Company's merchandising strategy combines this comprehensive product selection with strong inventory support.



The Company was founded in 1938 as a catalog mail order tractor parts supplier. In 1978, Fuqua Industries, Inc. acquired the Company, and in 1982 Fuqua, in turn, sold the Company to a group of investors, including a member of the Company's current senior management team, who is also a significant stockholder. Between the acquisition in 1982 and 1999, the Company's sales have increased from \$122.5 million to \$688.1 million and the Company has opened 169 stores and closed 20 stores.

### **Seasonality and Weather**

The Company's business is highly seasonal. Historically, the Company's sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the planting and harvesting seasons and the sale of seasonal products. The Company has typically operated at a net loss in the first fiscal quarter of each year. Unseasonable weather, excessive rain, drought, or early or late frosts may also affect the Company's sales. The Company believes, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of its stores.

### **Business Strategy**

The Company believes its sales and earnings growth has resulted from the focused execution of its business strategy, which includes the following key components:

**Market Niche.** The Company has identified a specialized market niche - supplying the daily farming and maintenance needs of hobby, part-time and full-time farmers and ranchers. By focusing its product mix on these core customers, the Company believes it has differentiated itself from general merchandise, home center and other specialty retailers.

**Customer Service.** The Company's number one priority is customer service. It offers its customers a high level of in-store service through motivated, well-trained, technically proficient Store Associates. The Company believes the ability of its Store Associates to provide friendly, responsive, technical assistance is valued by its customers and helps to promote strong customer loyalty and repeat shopping. TSC's commitment to customer service is further enhanced by its "satisfaction guaranteed" policy and its special order program.

**Technology.** Management strives to improve operating efficiencies and reduce costs through the use of modern technologies. The Company utilizes a fully integrated computerized merchandise and warehouse management and point-of-sale system that permits the entire store network to communicate with the Company's distribution centers and its management headquarters. The Company believes that this integrated system results in lower inventory carrying costs, improved in-stock positions and enhanced inventory control, as well as management and purchasing efficiencies. The Company believes that its ongoing commitment to utilize modern technologies creates a competitive advantage.

**Store Locations.** The Company's strategy is to locate its stores in rural communities and outlying areas of large cities where the rural lifestyle is a significant factor in the local economy. The Company believes it has developed a sophisticated, proven methodology to select its new store sites.

**Product Selection.** The Company offers a comprehensive selection of high quality, nationally recognized brand name and private label products, focused principally on the needs of the hobby, part-time and full-time farmer and rancher. The Company seeks to offer an extensive assortment of merchandise in specialized products. The Company's full line of product offerings is supported by a strong in-stock inventory position. An average store displays approximately 12,000 different products.

**Pricing.** The Company utilizes an "everyday low prices" strategy to consistently offer its products at competitive prices. The Company monitors prices at competing stores and adjusts its prices as necessary. The Company believes that by avoiding a "sale" oriented marketing strategy, it is attracting customers on a regular basis rather than only in response to sales.

**Vendor Partnering.** The Company has established close working relationships with many of its principal vendors to manage stock levels, develop new products, plan promotions and design merchandise displays. The Company intends to continue to expand its vendor partnering strategy to include most of its other key vendors.

**Advertising.** To generate store traffic and position TSC as a destination store, the Company promotes broad selections of merchandise with color circulars distributed by direct mail and as newspaper inserts. The Company also runs periodic special events promoted through local flyers, circulars and radio advertising. The Company enhances its print marketing and advertising programs through the expanded use of radio and national television. In connection with these programs, the Company has retained John Lyons, a renowned equine specialist, as its national equine spokesman, and George Strait, a renowned country music entertainer, as its national spokesman.

**Store Environment.** TSC's stores are open, clean, bright and offer a pleasant atmosphere with disciplined product presentation, attractive displays, both inside and outside the store, and efficient check-out procedures. The Company endeavors to staff its stores with courteous, highly motivated, knowledgeable Store Associates in order to provide a friendly, enjoyable shopping experience.

### **Growth Strategy**

The Company's growth strategy is to increase sales and profitability at existing stores through continuing improvements in product mix and operating efficiencies and through new store openings and relocations. Since the beginning of fiscal 1994, the Company has opened 124 new stores and relocated

13. Of these 137 stores, 105 have been open more than one year and have generated average net sales that are approximately 21.3% per annum greater than those of existing stores. During this period, the Company has also closed three stores (excluding relocations). Management believes that substantial opportunities exist for the opening of new stores to achieve greater penetration in existing markets and to expand into new markets.

The Company continued its new store growth plan with an approximate 12% overall new store unit growth in fiscal 1999. Current plans call for the opening of 40 to 45 new stores in fiscal 2000, approximately 38 in fiscal 2001, and additional stores thereafter (the Company has presently identified over 300 potential new markets).

The Company's strategy is to lease its new stores. Assuming that new stores are leased, the estimated cash required to open a new store is approximately \$800,000 to \$1,000,000, the majority of which is for initial inventory and capital expenditures, principally leasehold improvements, fixtures and equipment, and the balance of which is for store opening expenses.

The Company plans to relocate one store in fiscal 2000 and an average of one or two additional stores each year over the next several years. Store relocations are typically undertaken to move small, older stores to full-size formats in prime retail areas. The cash required to complete a store relocation typically ranges from \$250,000 to \$500,000 depending on whether the Company is responsible for any renovation or remodeling costs. The Company has experienced average sales increases in excess of 11% in the year subsequent to relocation for stores relocated over the past five years.

The Company plans to extensively remodel an average of one or two of its strong performing stores each year over the next several years, one of which is scheduled for fiscal 2000. The estimated cash required to complete a major remodeling typically ranges from \$150,000 to \$400,000. The Company also plans to perform minor remodelings of its stores on an on-going basis to ensure overall Company physical facility standards are maintained. The estimated cash required to complete a minor remodeling typically ranges from \$25,000 to \$75,000.

### **Store Environment and Merchandising**

The Company's stores are designed and managed to create a pleasant environment, maximize sales and operating efficiencies and make shopping an enjoyable experience. The Company's stores are clean, open and bright. The average Company store has approximately 12,600 square feet of inside selling space. The Company typically utilizes at least 12,000 square feet of outside space from which it merchandises certain farm-related and lawn and

garden products. Visual displays inside and outside can be changed easily for seasonal products and promotions and space can be reallocated easily among departments.

The following chart indicates the average percentages of sales represented by each of the Company's major product categories during fiscal 1999, 1998 and 1997:

| Product Category             | Percent of Total Sales |      |      |
|------------------------------|------------------------|------|------|
|                              | 1999                   | 1998 | 1997 |
| Animal and pet products..... | 20%                    | 19%  | 17%  |
| General maintenance.....     | 20                     | 18   | 16   |
| Lawn and garden.....         | 16                     | 18   | 19   |
| Work clothing and other..... | 16                     | 16   | 16   |
| Farm maintenance.....        | 15                     | 16   | 19   |
| Light truck equipment.....   | 13                     | 13   | 13   |
|                              | ---                    | ---  | ---  |
|                              | 100%                   | 100% | 100% |
|                              | ===                    | ===  | ===  |

The Company's stores carry a consistent merchandise mix, tailored to some extent to specific regional needs and store size, and stock an average of 12,000 products. The Company's stores carry a wide selection of quality, nationally recognized name brand merchandise. The Company also markets private label merchandise under the Huskee, Traveller, Harvest Supreme, Retriever and Dumor registered trademarks. Management believes that selling nationally recognized brands next to the Company's own high quality, private label merchandise offers its customers a range of products at various price points and helps build customer loyalty. The Company believes that it has also increased sales by distributing to in-store customers an easy-reference "blue book" catalog containing the descriptions and prices for thousands of its products.

The Company uses a "power merchandising" selling strategy. Under this strategy, selected merchandise is given special emphasis through prominent displays, a comprehensive product line and strong inventory support.

**Customer Service**

The Company's number one priority is customer service. Store Associates are the key to quality customer service, and the Company seeks to provide them with decision-making authority and training to enable them to meet customer needs.

Store Associates are authorized to special order virtually any non-stocked item a customer may need. The Company's refund policy is "hassle free" if within 30 days of date of purchase and accompanied by a receipt. However, the Company also has a "satisfaction guaranteed" policy, such that if customers are not satisfied, Store Associates are authorized, at their discretion, to offer to repair or exchange the product, or offer store credits or refunds, irrespective of when the product was purchased. The Company believes that by providing these services it improves customer satisfaction, builds customer loyalty and generates repeat business.

The Company devotes considerable resources to training its Store Associates, often in cooperation with its vendors. The Company's training programs include (i) a full management training program for manager trainees which covers all aspects of the Company's operations, (ii) product knowledge video tapes produced in conjunction with over 100 of its vendors, (iii) semi-annual retail training skills classes, (iv) semi-annual store managers meetings with vendor product presentations, (v) vendor sponsored in-store training programs and (vi) ongoing product information updates from the Company's management headquarters. The Company seeks to hire and train Store Associates with farming and ranching backgrounds.

The Company provides financial incentives to its district managers, store managers, manager trainees, sales managers and sales clerks through incentive compensation programs based on the achievement of sales and/or profitability goals. The Company believes that its incentive compensation programs increase the motivation and overall performance of its Store Associates and the Company's ability to attract and retain qualified personnel.

## **Purchasing and Distribution**

The Company offers an extensive selection of farm maintenance and other specialty products. The Company has established arrangements with certain of its principal vendors to develop new products, plan promotions, review marketing strategies, manage stock levels and develop merchandise displays. The Company is pursuing similar arrangements with other key vendors. The Company's business is not dependent upon any one vendor or particular group of vendors. The Company purchases its products from approximately 1,600 vendors, the five largest of which accounted for less than 25% of the Company's total purchases in fiscal 1999 and one of which (MTD Products, Inc.) accounted for more than 10% of the Company's purchases during such year. The Company has no material long-term contractual commitments with any of its vendors, has not experienced difficulty in obtaining satisfactory alternative sources of supply for its products and believes that adequate sources of supply exist at substantially similar costs for substantially all of its products. Approximately 80% of the Company's purchase orders are transmitted through an electronic data interchanges ("EDI") system, and approximately 50% of vendor invoices are transmitted through EDI. The Company is working to expand the number of vendors who transmit invoices to the Company and increase the amount of sales history transmitted from the Company, all through EDI. The Company's merchandise purchasing is centrally managed.

The Company opened a new 500,000 square foot distribution center in Pendleton, Indiana in January 2000, (replacing a 300,000 square foot facility in Indianapolis, Indiana), and operates a 144,000 square foot distribution center in Omaha, Nebraska and a 105,000 square foot distribution center in Waco, Texas from which it serviced approximately 167 stores, 51 stores and 55 stores, respectively, at January 1, 2000. The Company also utilizes a 57,000 square foot, strategically located "cross-dock" facility in Rural Hall, North Carolina to support the main distribution centers and transportation system network in servicing the stores located in the Southeast region of the country. In fiscal 1999, the Company received approximately 65% of its merchandise through these distribution facilities, with the balance delivered directly to the Company's stores. The main distribution centers ship to each store at least twice a week during peak periods through a dedicated contract carrier. The Company is continuously evaluating its long-term strategic plan with respect to its distribution centers and transportation operations.

## **Management Information and Control Systems**

The Company has invested considerable resources in sophisticated management information and control systems to ensure superior customer service, support the purchase and distribution of merchandise and improve operating efficiencies. The management information and control systems include a point-of-sale system, a purchase order management system, a replenishment system, a merchandise planning system and full sales, inventory and gross margin management reporting systems. These systems are fully integrated and track merchandise from order through sale. All operational data from these systems is also fully integrated with the Company's financial systems.

The Company is constantly assessing and upgrading its management information and control systems to support its growth, reduce and control costs, improve internal controls and operating efficiencies and facilitate better decision-making. To that end, in February 1999, the Company completed the installation of a new merchandise and warehouse management system which positioned the Company to further improve its inventory management and control, allow for better decision making, enhance overall productivity and provide the flexibility to support the Company's growth plans while at the same time ensuring it is Year 2000 compliant.

Subsequent to the installation of this new system, however, the Company experienced difficulties with the new replenishment system. These difficulties created an out-of-stock situation in certain key product categories. In an effort to correct this situation, the Company increased the ordering of goods to an extent which resulted in an overall excessive level of inventory in certain seasonal as well as basic product categories. During the third quarter of fiscal 1999, the Company corrected and refined its replenishment processes and achieved an approximate 25% reduction in the overstock position. Resolution of this situation is not expected until the end of the second quarter of fiscal 2000. The Company has since developed supplemental tools and processes that have improved most inventory management and reporting capabilities.

The Company continues to further evaluate and improve the functionality of the new systems to maximize their effectiveness. Such efforts will include an ongoing evaluation of the optimal software configuration (including

system enhancements and upgrades) as well as the adequacy of the underlying hardware components. These efforts are directed toward constantly improving the overall business processes and achieving the most efficient and effective use of the system to manage the Company's operations.

## **Competition**

The Company operates in a highly competitive market. While the Company believes it has successfully differentiated itself from general merchandise, home center and other specialty retailers, the Company faces select competition from these entities, as well as competition from independently owned retail farm stores, several privately-held regional farm store chains and farm cooperatives. Some of these competitors are units of large national or regional chains that have substantially greater financial and other resources than the Company.

## **Management and Employees**

As of January 1, 2000, the Company employed approximately 1,800 full-time and approximately 1,700 part-time employees. The Company also employs additional part-time employees during peak periods. As of such date, approximately 35 employees of the Company's Omaha, Nebraska distribution center were covered by a collective bargaining agreement. This collective bargaining agreement expires in July 2002.

Management believes its district managers, store managers and other supervisory personnel have contributed significantly to the Company's performance. Management encourages the participation of all Store Associates in decision making, regularly solicits input and suggestions from Store Associates and responds to the suggestions expressed by Company employees. Management believes it has good relationships with its employees.

One of the four members of the Company's senior management, most of the Company's district managers and a significant portion of the Company's store managers were promoted to their positions from within the Company. All members of senior management have at least 15 years of experience in the retail industry and one member of senior management has over 20 years of experience with the Company. District managers and store managers have an average length of service with the Company of approximately 6.6 years and 5.0 years, respectively. Management believes internal promotions, coupled with recruitment of college graduates and hiring of individuals with previous retail experience, will provide the management structure necessary to support expected store growth.

## **ITEM 2. PROPERTIES**

As of January 1, 2000, the Company leased its four distribution facilities and its management headquarters, owned 74 stores (23 of which are subject to mortgages) and leased 199 stores. The store leases typically have initial terms of between 10 and 15 years, with one to three renewal periods of five years each, exercisable at the Company's option. None of the store leases or mortgages individually is material to the Company's operations. The leases at its Pendleton, Indiana; Omaha, Nebraska; Waco, Texas and Rural Hall, North Carolina distribution facilities expire in 2015, 2002, 2002 and 2004 respectively, and the lease for its management headquarters expires in 2007. Seven of the Company's stores and its management headquarters are leased from affiliated parties. See Item 13. "Certain Relationships and Related Transactions".

As of January 1, 2000, the Company operated 273 stores in 26 states as follows:

| State          | Number<br>of Stores | State          | Number<br>of Stores |
|----------------|---------------------|----------------|---------------------|
| -----          | -----               | -----          | -----               |
| Texas          | 52                  | Minnesota      | 6                   |
| Ohio           | 35                  | Missouri       | 6                   |
| Tennessee      | 24                  | Nebraska       | 6                   |
| Michigan       | 21                  | Pennsylvania   | 5                   |
| Indiana        | 18                  | South Carolina | 6                   |
| North Carolina | 16                  | South Dakota   | 4                   |
| Kentucky       | 13                  | Alabama        | 3                   |
| Illinois       | 10                  | Oklahoma       | 3                   |
| Iowa           | 9                   | Maryland       | 2                   |
| Kansas         | 8                   | Mississippi    | 1                   |
| North Dakota   | 8                   | Montana        | 1                   |
| Virginia       | 8                   | New York       | 1                   |
| Arkansas       | 6                   | Wisconsin      | 1                   |

### ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings, other than routine claims and lawsuits arising in the ordinary course of its business. The Company does not believe that such claims and lawsuits, individually or in the aggregate, will have a material adverse effect on the Company's business. Compliance with federal, state, local and foreign laws and regulations pertaining to the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, and is not anticipated to have, a material effect upon the capital expenditures, earnings or competitive position of the Company. State and local regulations in the United States that are designed to protect consumers or the environment have an increasing influence on product claims, contents and packaging.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

No matter was submitted to a vote of the Company's security-holders during the fourth quarter of the Company's fiscal year ended January 1, 2000.

### EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an unnumbered item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 27, 2000.

The following is a list of the names and ages of all of the 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<br>----                | Position<br>-----                                                         | Age<br>--- |
|-----------------------------|---------------------------------------------------------------------------|------------|
| Joseph H. Scarlett, Jr..... | Chairman of the Board, President,<br>Chief Executive Officer and Director | 57         |
| Gerald W. Brase .....       | Senior Vice President - Merchandising and Marketing                       | 46         |
| Michael E. Brown.....       | Senior Vice President - Operations                                        | 42         |
| Calvin B. Massmann.....     | Senior Vice President-Chief Financial Officer and Treasurer               | 56         |
| John W. Atkins.....         | Vice President-Information Technology                                     | 37         |
| Reynolds H. Becker.....     | Vice President-Merchandise Manager for Consumer Products                  | 41         |
| Blake A. Fohl.....          | Vice President-Marketing                                                  | 40         |
| Mark D. Gillman.....        | Vice President-Operations (Region III)                                    | 39         |
| Lawrence Goldberg.....      | Vice President-Logistics                                                  | 57         |
| Leo H. Haberer.....         | Vice President-Real Estate                                                | 59         |
| Stephen E. Hull.....        | Vice President-Real Estate                                                | 42         |
| Gary M. Magoni.....         | Vice President-Operations (Region I)                                      | 53         |
| Stanley L. Ruta.....        | Vice President-Operations (Region II)                                     | 48         |
| Daisy L. Vanderlinde.....   | Vice President-Human Resources                                            | 48         |

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Joseph H. Scarlett, Jr. became Chairman of the Board, President and Chief Executive Officer of the Company in July 1998, after having served as Chairman of the Board and Chief Executive Officer of the Company since February 1993 and as President and Chief Operating Officer of the Company from 1987 to February 1993. Between 1979 and 1987, Mr. Scarlett served as Vice President-Personnel, Senior Vice President-Administration and Executive Vice President-Operations of the Company. Prior to 1979, Mr. Scarlett held operational positions, including District Supervisor and Personnel Director, with Two Guys Discount Stores in New Jersey over a 15 year period. Mr. Scarlett has served as a director of the Company since 1982. Mr. Scarlett is currently a member of the International Mass Retail Association Board.

Gerald W. Brase became Senior Vice President - Merchandising and Marketing of the Company in September 1997. Mr. Brase previously served as Divisional Vice President for Builders Square, a subsidiary of Kmart Corporation from 1993 to 1997. From 1985 to 1993, Mr. Brase served as Vice President and Divisional Merchandise Manager with the Hechinger Company. From 1969 to 1985, Mr. Brase held various merchandising and operational positions with the Hechinger Company and Sears, Roebuck & Company.

Michael E. Brown became Senior Vice President - Operations of the Company in January 1998. Mr. Brown previously served as Executive Vice President of Store Operations with House of Fabrics, Inc. from 1994 to 1997. From 1991 to 1994, Mr. Brown served as Vice President of Retail Sales, Regional Manager and District Manager with House of Fabrics, Inc. In November 1994, House of Fabrics, Inc. filed for bankruptcy reorganization, emerging in August 1996. From 1977 to 1991, Mr. Brown held various management and operational positions with the Rock Island County Council on Addictions, the 7 Eleven Food Stores of Iowa and the Prairie State Food Corporation.

Calvin B. Massmann became Senior Vice President - Chief Financial Officer and Treasurer in January 2000. Mr. Massmann previously served as an independent business consultant during 1998 and 1999. From 1995 to 1997, Mr. Massmann served as Senior Vice President and Chief Financial Officer for Builders Square, a subsidiary of Kmart Corporation. From 1981 to 1995 Mr. Massmann held various accounting and finance positions with W.R. Grace & Company and affiliates. From 1969 to 1981, Mr. Massmann served wholesale and retail clients as an auditor with Price Waterhouse.

John W. Atkins became Vice President - Information Technology of the Company in April 1999 after having served as Vice President Farm Merchandising of the Company since December 1996 and as Division Merchandise Manager of Farm Products of the Company since July 1995 and as a Buyer for the Company since July 1992. From 1986 to 1992, Mr. Atkins held various positions, including most recently Division Manager - Field & Stream with Bass Pro Shops Outdoor World. From 1983 to 1986, Mr. Atkins held various retail management positions with Kmart Corporation.

Reynolds H. Becker became Vice President - Merchandise Manager for Consumer Products in October 1999. Mr. Becker has a combined 16 years of retail experience. Most recently, Mr. Becker served as Merchandise Manager for Lowe's Companies, Inc. from 1997 to 1999. From 1992 to 1997, Mr. Becker served as Buyer and Senior Buyer with Target Stores, a division of Dayton Hudson in Minneapolis. From 1984 to 1992, Mr. Becker held various merchandising and operational positions with Roses's Stores Inc. in North Carolina.

Blake A. Fohl became Vice President - Marketing of the Company in December 1996 after having served as Director of Marketing of the Company since June 1995 and as a Buyer for the Company since August 1992. Mr. Fohl previously served as Divisional Manager of Green Seed Company from 1989 to 1992, as a Dairy Specialist with Purina Mills from 1986 to 1989 and as a store manager for Southern States Cooperative from 1981 to 1986.

Mark D. Gillman became Vice President - Operations of the Company in October 1999 after having served as District Manager since 1991. From 1982 to 1991 Mr. Gillman served as a store manager of the Company.

Lawrence Goldberg became Vice President - Logistics of the Company in October 1993 after having served as Director of Distribution of the Company since October 1992. Mr. Goldberg previously served as the Senior Vice President of Merchandising and Marketing of Paccar Automotive Inc. from 1991 to 1992, the General Manager of Al's Auto Supply (a subsidiary of Paccar Automotive Inc.) from 1990 to 1991, the Director of Stores Division of Fuller O'Brien Paint Corporation from 1988 to 1990 and the Director of Stores of Saxon Paint & Home Care Centers from 1980 to 1988.

Leo H. Haberer has served as Vice President - Real Estate of the Company since 1989. Prior to 1989, Mr. Haberer served as a Regional Vice President of the Company from 1975 to 1989 and as a store manager and zone manager from 1970 to 1975.

Stephen E. Hull became Vice President - Real Estate of the Company in January 1999 after having served as Director of Real Estate of the Company since April 1998. Mr. Hull previously served as Vice President of Real Estate of Heilig-Myers Corporation from 1990 to 1998, and Development Partner for the Robinson & Wetmore Development Group from 1988 to 1990.

Gary M. Magoni has served as a Vice President - Operations of the Company since 1989. Mr. Magoni previously served as a District Manager for Gold Circle Stores (a subsidiary of Federated Department Stores) from 1982 to 1988.

Stanley L. Ruta has served as a Vice President - Operations of the Company since March 1994. Mr. Ruta previously served as Vice President of Store Planning and Development and Vice President of Store Operations of Central Tractor Farm and Family Center, Inc. from 1988 to 1994. From 1976 to 1988, Mr. Ruta held various other operational positions with Central Tractor Farm and Family Center, Inc., including District Manager from 1985 to 1988.

Daisy L. Vanderlinde became Vice President - Human Resources of the Company in April 1996. Ms. Vanderlinde previously served as Vice President - Human Resources for Marshalls, Inc. from 1990 to 1996. From 1979 to 1990, Ms. Vanderlinde held various management and human resources positions, including most recently Divisional Vice President - Human Resources with The Broadway Stores, Inc., a division of Carter Hawley Hale Stores, Inc.



## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock began trading on The Nasdaq National Market on February 18, 1994 under the symbol "TSCO".

The table below sets forth the high and low sales prices of the Company's Common Stock as reported by The Nasdaq National Market for each fiscal quarter of the periods indicated:

|                | Price Range |            |             |          |
|----------------|-------------|------------|-------------|----------|
|                | Fiscal 1999 |            | Fiscal 1998 |          |
|                | High        | Low        | High        | Low      |
| First Quarter  | \$29 1/4    | \$21       | \$23 1/4    | \$13 3/4 |
| Second Quarter | \$29 3/4    | \$25       | \$26 1/2    | \$20 5/8 |
| Third Quarter  | \$26 5/16   | \$17 3/4   | \$26        | \$18     |
| Fourth Quarter | \$20 7/8    | \$13 13/16 | \$27        | \$18 1/2 |

As of January 31, 2000, the approximate number of record holders of the Company's Common Stock was 82 (excluding individual participants in nominee security position listings) and the approximate number of beneficial holders of the Company's Common Stock was 2,545.

The Company has not declared any cash dividends on its Common Stock during the two most recent fiscal years. The Company currently intends to retain all earnings for future operation and expansion of its business and, therefore, does not anticipate that any dividends will be declared on the Common Stock in the foreseeable future. Any future declaration of dividends will be subject to the discretion of the Company's Board of Directors and subject to the Company's results of operations, financial condition, cash requirements and other factors deemed relevant by the Board of Directors. The Company is also restricted from paying cash dividends by the terms of the note agreement, which relates to mortgage notes on certain of its properties.

### ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the caption "Five Year Selected Financial and Operating Highlights" on page 8 of the Company's Annual Report to Stockholders for the fiscal year ended January 1, 2000 is incorporated herein by reference.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 9 through 15 of the Company's Annual Report to Stockholders for the fiscal year ended January 1, 2000 is incorporated herein by reference.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company had no holdings of derivative financial or commodity instruments at January 1, 2000. The Company is exposed to financial market risks, including changes in interest rates. All borrowings under the Company's credit agreement bear interest at a variable rate based on the prime rate or the London Interbank Offered Rate. An increase in interest rates of 100 basis points would not significantly affect the Company's net income. All of the Company's business is transacted in U.S. dollars and, accordingly, foreign exchange rate fluctuations have never had a significant impact on the Company, and they are not expected to in the foreseeable future.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information set forth under the captions "Report of Independent Accountants", "Balance Sheets", "Statements of Income", "Statement of Changes in Stockholders' Equity", "Statements of Cash Flows", and "Notes to Financial Statements" on pages 16 through 31 of the Company's Annual Report to Stockholders for the fiscal year ended January 1, 2000 is incorporated herein by reference.

The Company's unaudited operating results for each fiscal quarter within the two most recent fiscal years, as set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 10 of the Company's Annual Report to Stockholders for the fiscal year ended January 1, 2000, is incorporated herein by reference.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **PART III**

## **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information set forth under the captions "Election of Class III Directors and Information Regarding Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" on pages 2 through 4 and 18, respectively, of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on April 27, 2000 is incorporated herein by reference.

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

## **ITEM 11. EXECUTIVE COMPENSATION**

The information set forth under the captions "Board of Directors and Committees of the Board - Compensation of Directors", "Compensation Committee Interlocks and Insider Participation", "Executive Compensation", "Summary Compensation Table", "Option Grants in Last Fiscal Year", "Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values", "Compensation Committee's Report on Executive Compensation", and "Performance Graph" on pages 4 through 16 of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on April 27, 2000 is incorporated herein by reference.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" on pages 18 through 20 of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on April 27, 2000 is incorporated herein by reference.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information set forth under the caption "Interests of Management in Certain Transactions" on pages 7 and 8 of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on April 27, 2000 is incorporated herein by reference.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 8-K

| (a) (1) Financial Statements                                                                                                                                                                                                        | Page |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| -----                                                                                                                                                                                                                               | ---- |
| The following financial statements and related notes of the Company contained on pages 16 through 30 of the Company's Annual Report to Stockholders for the fiscal year ended January 1, 2000 are incorporated herein by reference: |      |
| Report of Independent Accountants .....                                                                                                                                                                                             | 16   |
| Balance Sheets - January 1, 2000 and December 26, 1998 .....                                                                                                                                                                        | 17   |
| Statements of Income - Fiscal Years Ended January 1, 2000, December 26, 1998, and December 27, 1997 .....                                                                                                                           | 18   |
| Statement of Changes in Stockholders' Equity - Fiscal Years Ended January 1, 2000, December 26, 1998, and December 27, 1997 .....                                                                                                   | 19   |
| Statements of Cash Flows - Fiscal Years Ended January 1, 2000, December 26, 1998, and December 27, 1997 .....                                                                                                                       | 20   |
| Notes to Financial Statements .....                                                                                                                                                                                                 | 21   |

#### (a) (2) Financial Statement Schedules

None

Financial statement schedules have been omitted because they are not applicable or because the required information is otherwise furnished.

#### (a) (3) Exhibits

The exhibits listed in the Index to Exhibits, which appears on pages 14 through 19 of this Form 10-K, are incorporated herein by reference or filed as part of this Form 10-K.

#### (b) Reports on Form 8-K

No reports on Form 8-K were filed by the Registrant during the last quarter of the fiscal year ended January 1, 2000.

## SIGNATURES

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

### TRACTOR SUPPLY COMPANY

Date: March 24, 2000

By: /s/ Calvin B. Massmann

-----  
Calvin B. Massmann  
Senior Vice President - Chief Financial  
Officer and Treasurer

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

| Signature<br>-----                                               | Title<br>-----                                                                                             | Date<br>-----  |
|------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|----------------|
| /s/ Joseph H. Scarlett, Jr.*<br>-----<br>Joseph H. Scarlett, Jr. | Chairman of the Board, President,<br>Chief Executive Officer and Director<br>(Principal Executive Officer) | March 24, 2000 |
| /s/ Calvin B. Massmann<br>-----<br>Calvin B. Massmann            | Senior Vice President - Chief Financial<br>Officer and Treasurer<br>(Principal Financial Officer)          | March 24, 2000 |
| /s/ Thomas O. Flood*<br>-----<br>Thomas O. Flood                 | Director                                                                                                   | March 24, 2000 |
| /s/ Joseph D. Maxwell*<br>-----<br>Joseph D. Maxwell             | Director                                                                                                   | March 24, 2000 |
| /s/ S.P. Braud*<br>-----<br>S.P. Braud                           | Director                                                                                                   | March 24, 2000 |
| /s/ Joseph M. Rodgers*<br>-----<br>Joseph M. Rodgers             | Director                                                                                                   | March 24, 2000 |
| /s/ Gerard E. Jones*<br>-----<br>Gerald E. Jones                 | Director                                                                                                   | March 24, 2000 |
| /s/ Sam K. Reed *<br>-----<br>Sam K. Reed                        | Director                                                                                                   | March 24, 2000 |

\*By: /s/ Calvin B. Massmann

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Calvin B. Massmann  
Attorney-in-fact by authority  
of Power of Attorney

# INDEX TO EXHIBITS

| Exhibit<br>Number<br>----- | Description<br>-----                                                                                                                                                                                                                                                                                                                                             | Page Number<br>by Sequential<br>Numbering System<br>----- |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| 2.1                        | Plan of Reorganization and Exchange Agreement, dated as of May 1, 1991, between the Company and Thomas J. Hennesy, III (filed as Exhibit 2.1 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                               |                                                           |
| 3.1                        | Restated Certificate of Incorporation, as amended, of the Company, filed with the Delaware Secretary of State on February 14, 1994 (filed as Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 8, 1997, Commission File No. 000-23314, and incorporated herein by reference).                                       |                                                           |
| 3.2                        | Certificate of Amendment of the Restated Certificate of Incorporation, as amended, of the Company, filed with the Delaware Secretary of State on April 28, 1995 (filed as Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 8, 1997, Commission File No. 000-23314, and incorporated herein by reference).          |                                                           |
| 3.3                        | Certificate of Amendment of the Restated Certificate of Incorporation, as amended, of the Company, filed with the Delaware Secretary of State on May 13, 1997 (filed as Exhibit 3.3 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 8, 1997, Commission File No. 000-23314, and incorporated herein by reference).            |                                                           |
| 3.4                        | Amended and Restated By-laws of the Company as currently in effect (filed as Exhibit 3.7 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                                   |                                                           |
| 4.1                        | Form of Specimen Certificate representing the Company's Common Stock, par value \$.008 per share (filed as Exhibit 4.2 to Amendment No. 1 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on January 31, 1994, and incorporated herein by reference).                                                   |                                                           |
| 10.1                       | Revolving Credit Agreement, dated as of August 31, 1994, among the Company, The First National Bank of Boston, as agent and for itself, and First American National Bank (filed as Exhibit 1 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 9, 1994, Commission File No. 000-23314, and incorporated herein by reference). |                                                           |
| 10.2                       | Revolving Credit Note, dated as of August 31, 1994, issued by the Company to The First National Bank of Boston in the aggregate principal amount of \$25 million (filed as Exhibit 2 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 9, 1994, Commission File No. 000-23314, and incorporated herein by reference).         |                                                           |
| 10.3                       | Revolving Credit Note, dated as of August 31, 1994, issued by the Company to First American National Bank in the aggregate principal amount of \$5 million (filed as Exhibit 3 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 9, 1994, Commission File No. 000-23314, and incorporated herein by reference).               |                                                           |

| Exhibit<br>Number<br>----- | Description<br>-----                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.4                       | First Amendment to Revolving Credit Agreement, dated as of July 31, 1996, among the Company and The First National Bank of Boston, as agent and for itself and First American National Bank (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q, Commission File No. 000-23314, filed with the Commission on November 6, 1996, and incorporated herein by reference).                                                             |
| 10.5                       | Amended and Restated Revolving Credit Note, dated as of July 31, 1996, issued by the Company to First American National Bank in the aggregate principal amount of \$20 million (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q, Commission File No. 000-23314, filed with the Commission on November 6, 1996, and incorporated herein by reference).                                                                          |
| 10.6                       | Second Amendment to Revolving Credit Agreement, dated as of March 23, 1998, among the Company and BankBoston, N.A. (successor to The First National Bank of Boston) as agent and for itself, First American National Bank, and SunTrust Bank Nashville, N.A. (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 1, 1998, Commission File No. 000-23314, and incorporated herein by reference). |
| 10.7                       | Revolving Credit Note, dated as of March 23, 1998, issued by the Company to SunTrust Bank Nashville, N.A. in the aggregate principal amount of \$15 million (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 1, 1998, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                  |
| 10.8                       | Loan Agreement, dated as of June 30, 1998 between the Company and SunTrust Bank, Nashville, N.A. (filed as Exhibit 10.37 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 30, 1998, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                       |
| 10.9                       | Term Note, dated as of June 30, 1998, issued by the Company to SunTrust Bank, Nashville, N.A. in the aggregate amount of \$15 million (filed as Exhibit 10.38 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 30, 1998, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                  |
| 10.10                      | Note Agreement (the "Note Agreement"), dated as of April 1, 1988, among the Company, The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America (filed as Exhibit 10.3 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                         |
| 10.11                      | First Amendment to Note Agreement, dated April 1, 1991, among the Company, The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America (filed as Exhibit 10.4 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                   |
| 10.12                      | Second Amendment to Note Agreement, dated as of February 1, 1992, among the Company, The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America (filed as Exhibit 10.5 to Registrant's Registration                                                                                                                                                                                                                  |

| Exhibit<br>Number<br>----- | Description<br>-----                                                                                                                                                                                                                                                                                                                                                                                                       | Page Number<br>by Sequential<br>Numbering System<br>----- |
|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
|                            | Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                                                                                                                                                                                                                   |                                                           |
| 10.13                      | Third Amendment to Note Agreement, dated as of July 1, 1993, among the Company, The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America (filed as Exhibit 10.6 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                      |                                                           |
| 10.14                      | Form of Adjustable Rate First Mortgage Notes due January 1, 2004 issued by the Company to The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America pursuant to the Note Agreement, as amended (filed as Exhibit 10.7 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference). |                                                           |
| 10.15                      | Form of Mortgage, dated as of May 10, 1988, from the Company to The Mutual Life Insurance Company of New York pursuant to the Note Agreement, as amended (filed as Exhibit 10.8 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                      |                                                           |
| 10.16                      | Ground Lease Agreement, dated as of July 1, 1991, between the Company and GOF Indiana Corp. (relating to Plainfield, Indiana store) (filed as Exhibit 10.10 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                          |                                                           |
| 10.17                      | Indenture of Lease, dated as of September 1, 1991, between the Company and GOF Indiana Corp. (relating to Plainfield, Indiana store) (filed as Exhibit 10.11 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                         |                                                           |
| 10.18                      | Indenture of Lease, dated as of January 1, 1986, between the Company and Joseph H., Jr. and Dorothy F. Scarlett (relating to Omaha, Nebraska store) (filed as Exhibit 10.14 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                          |                                                           |
| 10.19                      | Indenture of Lease, dated as of January 1, 1986, between the Company and Joseph D. and Juliann K. Maxwell (relating to Nashville, Tennessee store) (filed as Exhibit 10.18 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                           |                                                           |
| 10.20                      | Indenture of Lease, dated as of January 1, 1986, between the Company and Thomas O. and Vickie Flood (relating to Mandan, North Dakota store) (filed as Exhibit 10.19 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                 |                                                           |

| Exhibit<br>Number<br>----- | Description<br>-----                                                                                                                                                                                                                                                                                                                                                                       |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.21                      | Indenture of Lease, dated as of September 15, 1986, between the Company and GOF Partners (relating to Nashville, Tennessee management headquarters) (filed as Exhibit 10.20 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                          |
| 10.22                      | Tractor Supply Company 1994 Stock Option Plan (filed as Exhibit 10.28 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                                                                                |
| 10.23                      | Amendment to the Tractor Supply Company 1994 Stock Option Plan (filed as Exhibit 10.25 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 8, 1997, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                   |
| 10.24                      | TSC Industries, Inc. Employee 401(k) Retirement Plan (including the Notices of the First, Second, Third, Fourth and Fifth Amendments thereto and the Trust Agreement forming a part thereof) (filed as Exhibit 10.29 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference). |
| 10.25                      | Form of Notice of the Revised Sixth Amendment to the TSC Industries, Inc. Employee 401(k) Retirement Plan (filed as Exhibit 10.30 to Amendment No. 1 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on January 31, 1994, and incorporated herein by reference).                                                                  |
| 10.26                      | Senior Executive Incentive Plan of the Company (filed as Exhibit 10.28 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 18, 1998, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                      |
| 10.27                      | Other Executive Incentive Plan of the Company (filed as Exhibit 10.29 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 18, 1998, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                       |
| 10.28                      | Form of Deferred Compensation Agreement constituting the Deferred Compensation Plan of the Company (filed as Exhibit 10.30 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 18, 1998, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                  |
| 10.29                      | Certificate of Insurance relating to the Medical Expense Reimbursement Plan of the Company (filed as Exhibit 10.33 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                                   |
| 10.30                      | Summary plan description of the Executive Life Insurance Plan of the Company (filed as Exhibit 10.34 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                                                 |



| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.31             | Agreement, effective August 1, 1996, between the Company and General Drivers & Helpers Union, Local # 554 (filed as Exhibit 10.31 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 21, 1997, Commission File No. 000-23314, and incorporated herein by reference).                                                                                         |
| 10.32             | Agreement, effective April 1, 1996, between the Company and Chauffeurs, Teamsters, Warehousemen and Helpers, Local Union No. 135 (filed as Exhibit 10.32 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 21, 1997, Commission File No. 000-23314, and incorporated herein by reference).                                                                  |
| 10.33             | Tractor Supply Company 1996 Associate Stock Purchase Plan (filed as Exhibit 4.4 to Registrant's Registration Statement on Form S-8, Registration No. 333-10699, filed with the Commission on August 23, 1996, and incorporated herein by reference).                                                                                                                                     |
| 10.34             | Indemnification Agreement, dated January 27, 1994, between the Company and Thomas O. Flood (filed as Exhibit 10.38 to Amendment No. 1 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on January 31, 1994, and incorporated herein by reference).                                                                               |
| 10.35             | Tractor Supply Company Restated 401(k) Retirement Plan (filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-3, Registration No. 333-35317, filed with the Commission on September 10, 1997, and incorporated herein by reference).                                                                                                                                     |
| 10.36             | Trust Agreement (filed as Exhibit 4.2 to Registrant's Registration Statement on Form S-3, Registration No. 333-35317, filed with the Commission on September 10, 1997, and incorporated herein by reference).                                                                                                                                                                            |
| 10.37             | Noncompetition Agreement, dated as of June 30, 1996, between the Company and Joseph D. Maxwell (filed as Exhibit 10.35 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 31, 1997, Commission File No. 000-23314, and incorporated herein by reference).                                                                                               |
| 10.38             | Split-Dollar Agreement, dated January 27, 1998, between the Company and Joseph H. Scarlett, Jr., Tara Anne Scarlett and Andrew Sinclair Scarlett (filed as Exhibit 10.45 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 17, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                  |
| 10.39             | Split-Dollar Agreement, dated January 2, 1998, between the Company and Thomas O. Flood and Terry Mainiero, as Trustee of the Flood 1997 Irrevocable Trust under Agreement dated November 10, 1997 (filed as Exhibit 10.46 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 17, 1999, Commission File No. 000-23314, and incorporated herein by reference). |
| 10.40             | Term Note, dated as of September 2, 1999, issued by the Company to SunTrust Bank, Nashville, N.A., a national banking association, in the aggregate amount of \$15 million (filed as Exhibit 10.47 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 29, 1999, Commission File No. 000-23314, and incorporated herein by reference).                   |
| 10.41             | Noncompetition Agreement, dated as of August 31, 1999, between the Company and Thomas O. Flood (filed as Exhibit 10.48 to Registrant's Quarterly Report on Form                                                                                                                                                                                                                          |

| Exhibit<br>Number<br>----- | Description<br>-----                                                                                                                                                                                                                                                                                                                            | Page Number<br>by Sequential<br>Numbering System<br>----- |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
|                            | 10-Q, filed with the Commission on October 29, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                                                                                      |                                                           |
| 10.42                      | Consulting Agreement, dated as of August 31, 1999, between the Company and Thomas O. Flood (filed as Exhibit 10.49 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 29, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                          |                                                           |
| * 10.43                    | Third Amendment to Revolving Credit Agreement, dated as of November 15, 1999 among the Company and SunTrust Bank Nashville, N.A. (replaced Bank Boston, N.A. as agent), as agent and for itself, AmSouth Bank (successor to First America National Bank), an national banking association, and Bank of America, a national banking association. |                                                           |
| * 10.44                    | Second Amendment to the Tractor Supply Company 1994 Stock Option Plan                                                                                                                                                                                                                                                                           |                                                           |
| * 10.45                    | Agreement, effective August 1, 1999 between the Company and General Drivers & Helpers Union, Local #554.                                                                                                                                                                                                                                        |                                                           |
| * 13                       | Annual Report to Stockholders for the fiscal year ended January 1, 2000.                                                                                                                                                                                                                                                                        |                                                           |
| * 23.1                     | Consent of PricewaterhouseCoopers LLP.                                                                                                                                                                                                                                                                                                          |                                                           |
| * 23.2                     | Consent of PricewaterhouseCoopers LLP.                                                                                                                                                                                                                                                                                                          |                                                           |
| * 24.1                     | Power of Attorney of Joseph H. Scarlett, Jr.                                                                                                                                                                                                                                                                                                    |                                                           |
| * 24.2                     | Power of Attorney of Thomas O. Flood                                                                                                                                                                                                                                                                                                            |                                                           |
| * 24.3                     | Power of Attorney of Joseph D. Maxwell                                                                                                                                                                                                                                                                                                          |                                                           |
| * 24.4                     | Power of Attorney of S.P. Braud                                                                                                                                                                                                                                                                                                                 |                                                           |
| * 24.5                     | Power of Attorney of Joseph M. Rodgers                                                                                                                                                                                                                                                                                                          |                                                           |
| * 24.6                     | Power of Attorney of Gerard E. Jones                                                                                                                                                                                                                                                                                                            |                                                           |
| * 24.7                     | Power of Attorney of Sam K. Reed                                                                                                                                                                                                                                                                                                                |                                                           |
| * 27.1                     | Financial Data Schedule (only submitted to SEC in electronic format).                                                                                                                                                                                                                                                                           |                                                           |

---

\* Filed herewith.

**EXHIBIT 10.43**

**TRACTOR SUPPLY COMPANY**

**AND**

**SUNTRUST BANK, NASHVILLE, N.A.  
AGENT**

**AND**

**SUNTRUST EQUITABLE SECURITIES CORPORATION  
ARRANGER**

**NOVEMBER 15, 1999**

### **THIRD AMENDMENT TO REVOLVING CREDIT AGREEMENT**

ENTERED INTO by and among TRACTOR SUPPLY COMPANY, a Delaware corporation (the "Borrower"), SUNTRUST BANK, NASHVILLE, N.A., AGENT for itself and the Banks defined herein ("Agent"), SUNTRUST BANK, NASHVILLE, N.A. ("STB"), FIRST AMERICAN NATIONAL BANK ("FANB"), and BANK OF AMERICA ("B of A") (herein STB, FANB, and B of A shall collectively be referred to as the "Banks") as of this 15th day of November, 1999.

#### **RECITALS:**

1. The Borrower entered into a Revolving Credit Agreement with First National Bank of Boston ("FNBB"), as agent and as a bank, and FANB dated as of August 31, 1994 (the "Agreement") pursuant to which FNBB and FANB extended a revolving credit facility to the Borrower in the principal amount of up to \$30,000,000.
2. The Borrower, FNBB, and FANB entered into a First Amendment to Revolving Credit Agreement dated July 13, 1996 which amendment among other things increased the revolving credit facility to a principal amount of up to \$45,000,000.
3. The Borrower, FNBB, FANB, and STB entered into a Second Amendment to Revolving Credit Agreement dated March 23, 1998 which amendment among other things added STB as a "Bank" to the credit facility and increased the revolving credit facility to a principal amount of up to \$60,000,000.
4. FNBB has withdrawn as "Agent" and as a "Bank" under the Agreement.
5. STB has agreed to serve as "Agent" under the Agreement.
6. B of A desires to become a "Bank" under the Agreement.
7. The Banks have agreed to increase the Total Commitments from \$60,000,000 to \$75,000,000, with the Commitment of STB to be \$30,000,000, with the Commitment of FANB to be \$25,000,000, and with the Commitment of B of A to be \$20,000,000.
8. The Borrower and the Banks desire to amend the Agreement for purposes set forth herein.

NOW, THEREFORE, in consideration of the foregoing premises, and other good and valuable consideration, the receipt and legal sufficiency of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. Definitions. The following definitions set forth in Section 1.1 of the Agreement are hereby amended to read as follows:

"Agent" means SunTrust Bank, Nashville, N.A. in its capacity as Agent for the Banks pursuant to Article 10 hereof, and not in its

individual capacity as a Bank, and any successor Agent appointed pursuant to Article 10.

"Bank" means individually STB in its capacity as a Bank, FANB, and B of A, and "Banks" means collectively STB, FANB, and B of A, and each entity's respective successors and assigns.

"Base Rate" means the rate of interest established from time to time and announced by STB as its "base rate," such rate being an interest rate used as an index for establishing interest rates on loans. The Base Rate shall be determined daily to reflect changes in the Base Rate.

"Business Day" means any date other than a Saturday, Sunday, or other day on which banks in Nashville, Tennessee are authorized to close by Applicable Law or applicable governmental authority.

"EBITDA" means, as measured in accordance with GAAP, for the Borrower, the sum of (i) Net Income (excluding any gains related to asset sales), plus (ii) Interest Expense, plus (iii) Income Tax Expense, plus (iv) depreciation and amortization expense.

"Income Tax Expense" means the amount shown as "provision for income taxes" (or such other similar designation) on Borrower's income statement.

"Interest Expense" shall mean, for any fiscal period of Borrower, total interest expense (including without limitation, interest expense attributable to Capitalized Lease Obligations in accordance with GAAP).

"LIBOR Rate" means, with respect to any Eurodollar Loan, the interest rate per annum (rounded upward, if necessary, to the next higher 1/100 of 1%), as determined in good faith by the Agent, at which dollar deposits approximately equal in the principal amount to such Eurodollar Loan and with a maturity comparable to such Eurodollar Interest Period are offered to money center banks in immediately available funds in the London Interbank Market for eurodollars at approximately 12:00 Noon, Nashville, Tennessee time, on the date of commencement of such Eurodollar Interest Period.

"Majority Banks" means Banks holding at least sixty percent (60%) of the then aggregate unpaid principal amounts of the Revolving Credit Notes held by the Banks, or if no such principal amounts are outstanding, Banks having at least sixty percent (60%) of the Total Commitments.

"Rental and Operating Lease Expense" means all such amounts included in the income statement of the Borrower as rent, lease charges, or other payments under any lease, excluding imputed interest on Capitalized Lease Obligations.

"Revolving Credit Notes" means, collectively, the \$30,000,000 Amended and Restated Revolving Credit Note dated as of November 15, 1999 executed by Borrower in favor of STB, the \$25,000,000 Amended and Restated Revolving Credit Note dated as of November 15, 1999 executed by Borrower in favor of FANB, and the \$20,000,000 Revolving Credit Note dated November 15, 1999 executed by Borrower in favor of B of A, as such may be amended and supplemented from time to time, and any replacement thereof or substitution therefor.

"Synthetic Lease" shall mean a master agreement or synthetic lease that evidences a transaction that satisfies the requirements of the Statement of Financial Accounting Standards No. 13 (SFAS 13) promulgated by the Financial Accounting Standards Board (FASB) and the Emerging Issues Task Force of the Financial Accounting Standards Board (1990) (EITF 90-15) that is classified as a lease for financial accounting purposes and as a loan for tax purposes.

"Total Commitments" means the aggregate of the several Commitments of the Banks in the principal amount of up to Seventy-Five Million and 00/100 Dollars (\$75,000,000), as set forth in Section 2.1 of this Agreement, including the aggregate of the several Commitments as they may be reduced from time to time.

"Total Funded Debt" means, with respect to the Borrower, without duplication, the sum of (i) all indebtedness for money borrowed; (ii) purchase money debt; (iii) Capitalized Lease Obligations; (iv) amounts evidenced by the aggregate face amount of all outstanding letters of credit; (v) outstanding amounts under asset securitization vehicles, conditional sales contracts and similar title retention debt instruments; and (vi) all indebtedness guaranteed by the Borrower.

2. Section 2.1 (a) and (b) The Commitments. Section 2.1(a) and (b) of the Agreement are hereby amended and restated in their entirety as follows:

Section 2.1 The Commitments.

(a) Subject to the terms and conditions of and relying on the representations, warranties, and covenants contained in this Agreement, for a period ending on the Termination Date, each Bank agrees to make available, severally, but not jointly, to the Borrower, from time to time, as requested by Borrower, Revolving Credit Loans up to the amount set out below opposite their respective names, which for all of the Banks shall be the aggregate maximum principal amount of up to Seventy-Five Million and 00/100 Dollars (\$75,000,000). The maximum Commitment of each of the Banks and its respective percentage of the Total Commitments (the "Commitment Percentage" of each Bank) are as follows:

| Bank<br>----                   | Commitment<br>----- | Commitment<br>-----<br>Percentage<br>----- |
|--------------------------------|---------------------|--------------------------------------------|
| SunTrust Bank, Nashville, N.A. | \$30,000,000        | 40%                                        |
| First American National Bank   | \$25,000,000        | 33%                                        |
| Bank of America                | \$20,000,000        | 27%                                        |

(b) The Revolving Credit Loan shall be evidenced by (i) the \$30,000,000 Amended and Restated Revolving Credit Note of Borrower to STB, (ii) the \$25,000,000 Amended and Restated Revolving Credit Note of Borrower to FANB, and (iii) the \$20,000,000 Revolving Credit Note of Borrower to B of A, which Revolving Credit Notes are in the form set forth as Exhibit A attached hereto, with each Revolving Credit Note payable in accordance with its terms. The Borrower may obtain Revolving Credit Loans, repay or prepay, without penalty or premium (except that Eurodollar Loans may only be prepaid at the end of the applicable Eurodollar Interest Period, unless such prepayment is made pursuant to Sections 2.8, 2.9 or 2.10 hereof), at any time or from time to time, in whole or in part, and at the sole discretion of the Borrower, and reborrow hereunder, from the date of this Agreement until the Termination Date, in an aggregate principal amount not less than a minimum of \$500,000 or a greater integral multiple of \$100,000, excluding advances made under the Revolving Credit Notes to pay the Borrower's reimbursement obligation under Section 2.13 of this Agreement. Each of the Revolving Credit Loans shall be made by each Bank ratably in accordance with the ratio that its respective Commitment Percentage bears to the amount of such Revolving Credit Loan.

### 3. Section 2.2 (a) Disbursement of the Revolving Credit Loans.

Section 2.2(a) of the Agreement is hereby amended to add the following sentences at the end of such section:

The following persons are hereby authorized to submit Borrowing Notices: Stuart L. Uselton, Joseph H. Scarlett, Jr. and Randall S. Guiler, and any other officer upon written notice from Borrower.

### 4. Section 2.4 The Agent's Fee. Section 2.4 of the Agreement is hereby amended and restated in its entirety as follows:

Section 2.4 The Arranger's Fee and the Agent's Fee. The Borrower shall pay: (i) to SunTrust Equitable Securities Corporation an arrangement and advising fee and (ii) to Agent an agent's fee, all as set forth in letter agreement dated September 22, 1999 among Borrower, Agent, and SunTrust Equitable Securities Corporation.

5. Section 2.6 Interest Rate and Payments of Interest. The carryover paragraph appearing after subparagraph 2.6(a)(2) which begins "provided, however," is hereby deleted and replaced with the following:

provided, however, that in the event that the ratio of the Borrower's Total Funded Debt to EBITDA exceeds 2 to 1 at the end of a fiscal quarter of the Borrower, as reported by the Borrower pursuant to Section 7.4, then in such event, for the next fiscal quarter of the Borrower, the interest rate payable on Floating Rate Loans shall increase to a rate per annum equal to the Base Rate plus one-half of one percent (.50%), and the interest rate payable on Eurodollar Loans shall increase to a rate per annum equal to the LIBOR Rate plus one percent (1.0%).

6. Section 2.11 Letters of Credit. Section 2.11 of the Agreement shall be amended and restated in its entirety as follows:

Section 2.11 Letters of Credit. Upon the terms and subject to the conditions of this Agreement, and in reliance upon the representations and warranties made herein, the Agent shall cause STB to issue from time to time as requested by the Borrower, prior to the Termination Date, commercial and standby Letters of Credit pursuant to STB's letter of credit application forms; provided, however, that (1) the aggregate face amount of all commercial and standby Letters of Credit outstanding at any one time shall not exceed \$5,000,000; (2) there shall exist no Event of Default hereunder at the time of such issuance; (3) STB may assign its obligation to issue Letters of Credit hereunder without the Borrower's consent; and (4) commercial Letters of Credit shall be used by the Borrower to facilitate the purchase of goods, inventory, equipment, machinery or fixtures to be sold or used in connection with the Borrower's business. No Letter of Credit issued under this Agreement shall have an expiration date beyond the Termination Date. The Banks shall each share in the obligations evidenced by a Letter of Credit ratably in accordance with the ratio that its respective Commitment Percentage bears to the amount of such Letter of Credit.

7. Section 2.12 Letter of Credit Fees. Section 2.12 of the Agreement shall be amended and restated in its entirety as follows:

Section 2.12 Letter of Credit Charges. In connection with the issuance of Letters of Credit, the Borrower shall pay the following amounts:

(a) in connection with the issuance of any standby Letter of Credit and the renewal of any existing standby Letter of Credit, the Borrower shall pay to the Agent for the benefit of the Banks an amount equal to one percent (1%) of the face amount of the standby Letter of Credit so issued or when renewed;



(b) the Borrower shall pay to the Agent for the benefit of the Banks an amount equal to twenty-five (25) basis points per annum multiplied by the face amount of all outstanding commercial (documentary) Letters of Credit, which amount shall be payable quarterly in arrears; and

(c) the Borrower shall pay on demand to STB an amount equal to STB's standard fees charged from time to time in connection with letters of credit.

8. Section 7.4 (a) Officer's Certificates. Section 7.4 (a) of the Agreement is hereby amended and restated in its entirety as follows:

(a) At the time the financial statements are furnished to the Agent, pursuant to Section 7.1, a certificate of its chief executive officer, president, chief financial officer or controller (i) setting forth as at the end of such fiscal quarter, the information necessary to calculate the financial covenants set forth in Section 8.1 of the Agreement, and (ii) stating, that, based on an examination sufficient to enable him to make an informed statement, no Default or Event of Default exists on the date of such certificate, or, if such is not the case, specifying such Default or Event of Default and its nature, when it occurred, whether it is continuing and the steps being taken by the Borrower with respect to such event or failure.

9. Section 8.1(b) Ratio of Total Liabilities to Net Worth.

Section 8.1(b) of the Agreement shall be deleted and shall be replaced by the following provision:

(b) Ratio of Total Funded Debt to EBITDA. The ratio of Total Funded Debt to EBITDA calculated as of the end of each fiscal quarter for a rolling four-quarters basis shall not exceed 2.25 to 1.00.

10. Section 8.1(c) Minimum Working Capital. Section 8.1(c) of the Agreement shall be deleted.

11. Section 8.1(d) Minimum Interest Coverage Ratio. Section 8.1(d) of the Agreement shall be deleted and shall be replaced by the following provision:

(d) Fixed Charge Coverage Ratio. (i) The sum of (A) EBIT, plus (B) Rental and Operating Lease Expense, divided by (ii) the sum of (A) Interest Expense, plus (B) Rental and Operating Lease Expense, plus current maturities of Total Funded Debt shall not be less than the ratio of 1.25 to 1.0 as calculated at the end of each fiscal quarter for a rolling four-quarters basis.

12. Section 8.1(e) Minimum Current Ratio. Section 8.1(e) of the Agreement shall be deleted.

13. Section 8.2 Additional Indebtedness and Obligations Under Synthetic Leases. Section 8.2 of the Agreement shall be amended and restated in its entirety as follows:

Section 8.2 Additional Indebtedness and Obligations Under Synthetic Leases. Incur, create, assume or permit to exist any Indebtedness or obligations under Synthetic Leases except (i) the Revolving Credit Loans, (ii) the Existing Indebtedness, (iii) Indebtedness of another Person assumed or paid off in connection with the acquisition of the assets or capital stock of such Person, (iv) intercompany Indebtedness, (v) Indebtedness and Guarantees not otherwise prohibited under this Agreement, (vi) Purchase Money Indebtedness incurred in the ordinary course of business, (vii) other Indebtedness which does not exceed an aggregate of \$2,500,000 at any one time outstanding, and (viii) obligations under one or more Synthetic Leases which do not exceed \$20,000,000 in the aggregate.

14. Section 10.1 Authorization. The first sentence of Section 10.1 is hereby deleted, and the following is substituted as the new first sentence of Section 10.1:

With respect to all funds advanced hereunder or under the Revolving Credit Notes, STB, FANB, and B of A shall be obligated to advance \$30,000,000, \$25,000,000, and \$20,000,000, respectively, and each such Bank shall own a corresponding undivided interest in this Agreement and a corresponding prorata interest in all Revolving Credit Loans and all Letters of Credit (regardless of the Bank actually issuing the Letter of Credit) made or issued in accordance with the terms of this Agreement.

15. Section 11.1(b) Address for Notices. Section 11.1(b) of the Agreement is amended and restated in its entirety as follows:

(b) Addresses for Notices. Notices to the parties shall be sent to them at the following addresses, or any other address of which all the other parties are notified in writing:

If to Borrower: 320 Plus Park Boulevard  
Nashville, Tennessee 37217  
Attn: Stuart L. Uselton

If to the Agent: P.O. Box 305110  
201 Fourth Avenue North  
Nashville, Tennessee 37230-5110  
Attn: Tracy Elliott

If to FANB: 315 Union Street  
Nashville, Tennessee 37230-5110

Attn: Russell Rogers

If to B of A:

414 Union Street  
2nd Floor  
Nashville, Tennessee 37239  
Attn: Bryan Hulker

16. Section 11.2(a) of the Agreement is amended and restated in its entirety as follows:

(a) the preparation, execution and delivery of this Agreement, the Revolving Credit Notes, and any other documents or instruments executed and delivered in connection herewith or therewith, including taxes (if any) and the reasonable fees and disbursements of Farris, Warfield & Kanaday, PLC, counsel for the Agent and STB;

17. Boston Time. All references in the Agreement to "Boston time" shall be amended and restated to mean "Nashville, Tennessee time."

18. Exhibit A to the Agreement shall be amended and restated to mean the Collective Exhibit A attached hereto.

19. Conditions. Notwithstanding any other provision of this Third Amendment, this Third Amendment shall not be effective until the satisfaction (or waiver by the Agent) of each of the following conditions:

(a) The Agent shall have received a certificate of the Chief Executive Officer, President, Chief Financial Officer, or Controller of the Borrower stating that, to the best of his knowledge and based on the examination sufficient to enable him to make an informed statement:

(i) All the representations and the warranties made under this Agreement are true and correct in all material respects as of the date of this Third Amendment; and

(ii) No Default or Event of Default exists as of the date of this Third Amendment.

(b) This Third Amendment and the Revolving Credit Notes, shall have been duly executed and delivered to the Agent.

20. Ratification. Borrower hereby restates and ratifies the covenants and warranties contained in the Agreement, as of the date hereof, and confirms that the terms and conditions of the Agreement, as amended hereby, remain in full force and effect.

21. Counterparts. This Third Amendment may be executed in counterparts.

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be executed by their duly authorized officers as of the day and year first written above.

**BORROWER:**

**TRACTOR SUPPLY COMPANY**

By: /s/ Joseph H. Scarlett, Jr.  
-----  
Title: Chairman of the Board, President,  
-----  
Treasurer and Chief Executive Officer  
-----

**AGENT:**

**SUNTRUST BANK, NASHVILLE, N.A.**

*By: /s/ Tracy L. Elliott*

*-----*  
*Title: Assistant Vice President*  
*-----*

**BANKS:**

**SUNTRUST BANK, NASHVILLE, N.A.**

*By: /s/ Tracy L. Elliott*

*-----*  
*Title: Assistant Vice President*  
*-----*

**FIRST AMERICAN NATIONAL BANK**

*By: /s/ Russell S. Rogers*

*Title: Senior Vice President*

**BANK OF AMERICA**

*By: /s/ Bryan Hulker*

*Title: Vice President*



**EXHIBIT 10.44**

**AMENDMENT NO. 2 TO THE  
TRACTOR SUPPLY COMPANY 1994 STOCK OPTION PLAN**

WHEREAS, Tractor Supply Company (the "Company") sponsors the Tractor Supply Company 1994 Stock Option Plan (the "Plan"); and

WHEREAS, the Board of Directors of the Company has determined that it is in the best interest of the Company and its stockholders to amend the Plan in the manner contemplated below (the "Amendment") as of July 23, 1998; and

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Section 2.1(b) of the Plan is hereby deleted in its entirety and replaced with the following:

(b) Each director of the Company who is not an employee of the Company or an Affiliate shall be granted (i) a nonqualified stock option for 3,500 shares of Common Stock upon initial election to the Board of Directors, and (ii) a nonqualified stock option for 1,500 shares of Common Stock on an annual basis. Such options shall become exercisable with respect to 33 1/3% of the shares of Common Stock subject thereto (rounded down to the next lower full share) on the first anniversary date of grant, an additional 33 1/3% of the shares of Common Stock subject thereto (rounded down to the next lower full share) on the second anniversary of the date of grant, and 100% exercisable on the third anniversary of the date of grant. Such options shall terminate and cease to be exercisable on the tenth anniversary of the date of grant. All options granted pursuant to this Section 2.1(b) shall have an option exercise price per share of 100% of the fair market value of a share of Common Stock on the date the option is granted.

2. Except as expressly amended hereby, the Plan shall remain in full force and effect.

**EXHIBIT 10.45**

**AGREEMENT**

**BETWEEN**

**TRACTOR SUPPLY COMPANY**

**AND**

**GENERAL DRIVERS & HELPERS UNION,  
LOCAL #554, AFFILIATED WITH THE  
INTERNATIONAL BROTHERHOOD OF TEAMSTERS**

**EFFECTIVE: AUGUST 1, 1999**

**EXPIRES: JULY 31, 2002**

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## **AGREEMENT**

THIS AGREEMENT, entered into between TRACTOR SUPPLY COMPANY of Omaha, Nebraska, hereinafter referred to as the "Company", and GENERAL DRIVERS & HELPERS UNION, LOCAL #554, affiliated with the International Brotherhood of Teamsters, hereinafter referred to as the "Union".

### **WITNESSETH:**

#### **ARTICLE 1 - RECOGNITION**

The Company recognizes the Union as the sole and exclusive bargaining agent for warehousemen of the Company at Omaha, Nebraska, excluding professional associates, office clerical associates, retail salesmen, watchmen, guards, sweep-up boy and supervisors, as defined in the Labor Management Relations Act, 1947, as amended.

It is expressly understood that this Agreement shall not apply to salesmen employed at any retail outlet of the Company or its subsidiaries.

#### **ARTICLE 2 - CHECK-OFF**

Section 1. The Company shall deduct from the first pay of each month the Union dues and uniform assessments for the current month and promptly remit same to an authorized representative of the Union, provided that the Company has received from the associate involved on whose account such deductions are made, a written assignment permitting such deduction. Initiation fees of the Union shall be deducted by the Company and remitted to the Union in the same manner as dues collections, on the basis of monthly lists of new members submitted to the Company by the Union, provided the Company shall have received from the associate on whose account such deductions

are made, a written assignment. This paragraph shall be subject to the provisions of the Labor Management Relations Act of 1947, as amended.

Section 2. The Employer will recognize authorization for deductions from wages for the Union's D.R.I.V.E. Program, if in compliance with state law. Such deduction shall be made once annually and transmitted to the Union.

### **ARTICLE 3 - DISCRIMINATION AND COERCION**

Section 1. There shall be no discrimination by foremen, superintendents or other supervisors of the Company against any associate in the bargaining unit because of the associate's membership in the Union.

Section 2. The Union agrees that neither its officers nor its members, nor persons employed directly or indirectly by the Union, will intimidate or coerce associates, nor will it solicit members on Company time.

Section 3. The Company and the Union agree to abide by applicable laws concerning no discrimination because of race, color, religion, national origin, sex, and age. Both parties further agree to abide by all applicable provisions of the National Labor Relations Act, as amended.

Section 4. Due to the Americans with Disabilities Act or the regulations promulgated thereunder, the Company may be required to make a reasonable accommodation to the disability of an applicant or incumbent associate that may be in conflict with provisions of this Agreement. In such event, the Company shall be privileged to make such accommodation notwithstanding the

requirements of this Agreement. The Company shall notify the Union thereafter as soon as is practicable of such situation on a confidential basis.

#### **ARTICLE 4 - SCHEDULE OF HOURS AND OVERTIME**

Section 1. The regular hours of work shall be 40 hours per week divided into five days of eight hours each and/or four days of 10 hours each worked consecutively with the right of the Company to establish work shifts from Sunday 3:00 p.m. through Saturday, with the exception of utility/cleanup which would precede or follow above program.

The foregoing hours of work shall not apply in cases of proven computer breakdown that would prevent the normal warehouse operation, or other causes beyond the control of the Company, Acts of God such as fire, flood, explosion or power failure. Under no condition will an associate who has reported and started work be paid for less than four hours.

Section 2. Time and one-half (1-1/2) shall be paid for all work performed over 40 hours per week.

- A. Associates shall not be required to work an excess of 10 hours per day which may include Company directed mandatory overtime.
- B. The exception to Section 2A. hours of work limitation would be emergency plans enacted and/or caused by an Act of God or federal, state, or local government directives.
- C. See Appendix C for bid scheduling and overtime.

Section 3. Holidays shall be considered as days worked for the purpose of computing overtime.

Section 4. Associates shall, except by mutual agreement, take at least one continuous period for meals of not less than 30 minutes, nor more than one hour in any one day. No associate shall be compelled to take more than one continuous hour during such period, nor be compelled to take any part of such continuous hour before he/she has been on duty three and one-half (3-1/2) hours or after he/she has been on duty six hours.

Starting time for the regular or first shift will be between 5:00 a.m. and 10:00 a.m.

Section 5.

A. All work performed on Sunday between 12:01 a.m. and 3:00 p.m., (with the exception of utility cleanup) will be paid at two times straight-time rates.

B. Associates starting after 3:00 p.m. Sunday or later, which is part of the associate's regularly scheduled work week, will be paid straight-time rates.

C. All work performed on observed holidays shall be paid for at the rate of two times the regular straight time rate, plus holiday pay as provided in Article #6.

D. Associates required to work on their 7th day of work (7th shift for the week) shall be paid two times their straight time rate of pay.

An associate's workweek shall be a seven consecutive day period commencing on the associate's first regularly scheduled day of work.



Section 6. There shall be no pyramiding of overtime. This means that overtime shall not be paid twice for the same hours worked.

Section 7. All associates covered by this Agreement shall be paid on a biweekly basis. Each associate shall be provided with a statement of gross earnings and an itemized statement of all deductions made for any purpose.

Section 8. There will be two 15 minute break periods each shift, one in the first half of the shift and one in the second half of the shift, as near the middle of the work period as practical. The second break may be eliminated and reflected in a quitting time 15 minutes earlier, if the majority of the work group concurs.

Section 9. Associates called in on their regular scheduled day off shall be guaranteed no less than four hours work or pay. When shift overtime of less than one hour is required, the Company may assign the associate who is to perform the work.

## **ARTICLE 5 - VACATIONS**

### **Section 1 - Schedule of Service**

Vacations are provided to full-time associates for the purpose of rest and relaxation. Scheduling of vacations should be planned through your manager. The following vacation schedule is based on seniority.

A. One Week Vacation:

Associates hired between July 1 and December 31 are eligible for a one week vacation in the following year which must be taken between June 1 and December 31. The next year these associates will be eligible for two weeks vacation.

B. Two Weeks Vacation:

Associates hired between January 1 and June 30 are eligible for two weeks vacation in the following year which can be taken from a period no earlier than one year from the hire date to December 31 of that year.

C. Three Weeks Vacation:

Associates are eligible for three weeks vacation on the January 1 of the year in which they will complete eight years of continuous service. Associates are expected to take earned vacations during the current eligibility year. Vacation may not be accrued from one year to the next. Payment will not be made for unused vacation from prior years, nor will pay in lieu of vacation be allowed.

D. Four Weeks Vacation:

Associates are eligible for four weeks vacation on the January 1 of the year in which they will complete 15 years of continuous service.

Section 2 - Vacation Scheduling

A. Planning

Vacation planning should be done as far in advance as possible. Vacation schedule forms are distributed in January to facilitate advance planning.

## B. Scheduling

Associate vacation requests should be solicited as far in advance as possible. Vacations will be granted according to staffing requirements with consideration given for seniority. Although efficient operation of the work unit is important, fair and equitable vacation scheduling is essential.

## C. Commitment

Once a vacation has been scheduled it cannot be changed within two weeks of the start of the vacation, except by mutual agreement of both management and the associate.

### Section 3 - Vacation Payment - Full-time Associates

Vacation pay is determined by the total hours worked during a normal work week. Forty hours will be paid regardless of average hours per week.

### Section 4 - Vacation Accrual

Associates are expected to take earned vacations during the current eligibility year. Vacation may not be accrued from one year to the next. Payment will not be made for unused vacation except for separated associates as provided in Section 5.

### Section 5 - Vacation for Separated Associates

Pay will be made to all associates for earned vacation as of the last eligible date regardless of reasons for separation.

## Section 6 - Effect of a Holiday During the Vacation Time

When a paid holiday falls within the vacation period, the associate shall be entitled to an additional day off with pay as mutually agreed by the supervisor and the associate within the current eligibility year.

## Section 7 - Effect of Leave of Absence

A. Personal or Sick Leave: Leaves totalling 90 days or less shall not affect vacation.

B. Military Leave:

Vacation for associates with one year or more of continuous service as a full-time associate, who returns to work from military leave shall receive credit as a full-time associate according to the provisions of the Uniform Services Employment and Re-employment Rights Act. U.S. Code Chapter 43 Title 38.

## ARTICLE 6 - HOLIDAYS

Section 1. Regular associates who are not scheduled to work on the following holidays shall be paid eight hours pay at the straight-time hourly rate for the following holidays:

New Year's Day

Labor Day

Memorial Day

Thanksgiving Day

Fourth of July

Christmas Day

### Associate's Anniversary Date

Holiday pay for associates working four 10 hour days shall be as follows:

When the holiday falls on a work day, the associate receives a day off with 10 hours pay. When a holiday falls on a non-work day, it is observed on the nearest work day.

Section 2. Regular associates called to work on any of the above listed holidays shall be paid at two times the regular rate, in addition to the eight hours referred to above.

Section 3. In order to qualify for eight hours of straight time pay for a holiday not worked, it is provided that regular associates must work their regular scheduled work day which precedes and follows the holiday, except in cases of proven illness or unless the absence is mutually agreed to.

Section 4. Associates who are serving their ninety (90) days probationary period are not entitled to holiday pay for holidays falling within the probationary period.

Section 5. The parties hereto specifically acknowledge and agree that the scheduling of mandatory overtime on a holiday is one of the management prerogatives reserved to the Company under this Agreement.

#### **ARTICLE 7 - WAGE RATES**

Wages shall be paid as set forth in Wage Appendix "A" attached hereto and made a part of this Agreement.

#### **ARTICLE 8 - STEWARDS**

The Company recognizes the right of the Union to designate a job steward and/or alternate per shift to handle such Union business as may from time to time be delegated to them by the Union.

Job stewards and alternates have no authority to take strike action or any other action interrupting the Company's business in violation of this Agreement, or any action except as authorized by official action of the Union. The Company recognizes this limitation upon the authority of job stewards and their alternates. The Company, in so recognizing such limitation, shall have the authority to render proper discipline, including discharge without recourse, to such job steward or his alternate in the event the job steward or his alternate has taken an unauthorized strike action, slow-down, or work stoppage in violation of this Agreement. Job steward and alternate shall be an associate of the Company. The job steward and/or alternate has authority to receive any notice hereunder from the Company to the Union, provided the Company mails a copy of such notice to the Union. Such notice will be effective on the date of receipt by the steward or alternate. Discussion of union matters with one or more associates should be held on breaks, lunch periods, or before or after the scheduled shift.

#### **ARTICLE 9 - MANAGEMENT RIGHTS**

The management of the Company's business and the direction of its associates, including the right to plan, direct and control Company operations, hire, suspend or discharge, transfer, or relieve associates from duty because of lack of work or for other reasons, the right to introduce new, improved or different methods of facilities, and the right to establish and maintain rules and regulations covering the operations of its business and the conduct of its associates, are vested exclusively in the Company as long as the same does not conflict with the terms and provisions of this Agreement. The Company will discharge any associate for dishonesty, use or being under the influence of intoxicating liquors or drugs while on duty, insubordination, conduct of a criminal character, the unauthorized taking or use of Company property, violent physical threats on Company property, the possession of fire arms on Company property, fighting or other conduct that normally

calls for summary discharge. The Company will not discharge associates for other offenses without first furnishing a warning letter, a copy of which will be furnished to the Union. The Company may request an associate to take a medical test to determine whether he was under the influence of intoxicating liquor or drugs, and an associate's refusal to submit to such test may be considered as a presumption that the associate was under the influence. Such tests will be based on reasonable suspicion, or as a result of selection under the random drug and substance testing program, as set forth in Appendix D.

## **ARTICLE 10 - CONDITIONS OF EMPLOYMENT**

Section 1. Seniority for the purposes of this Agreement is defined as the length of continuous service with the Company.

Section 2.

A.(1) In assigning associates to higher paying jobs, either inside the bargaining unit or to work as a Lead Person, the Company shall select those associates who are best qualified and desire to be so promoted. In making such selections, consideration will be given to such factors as ability, performance, skill and experience. Judgments as to qualifications shall be at the sole discretion of the Company on a non-discriminatory basis.

A.(2) A Lead Person shall be assigned to a specific daily classification for overtime purposes under Appendix "C". A Lead Person, for the purpose of day off overtime, will be considered to be part of his/her last assigned classification.

A.(3) If a Lead Person is filling in for supervision, he/she shall not be restricted in any way from performing his/her duties and responsibilities as a Lead Person.

B.(1) The principle of seniority will apply in case of layoffs. Layoffs will be implemented based on seniority, qualifications to perform the work, and associates being at the level of "standard performance" as per Company performance appraisal form, in order to get a bye.

B.(2) The Company will notify the associate in writing at least one week before the date of layoff.

B.(3) Associates with at least 90 days of service will be recalled based on seniority, qualifications to perform the work, and meeting "standard performance" objectives. Associates who have been laid off shall receive seven days written notice of recall.

Section 3. Associates shall lose all seniority rights and employment shall cease for any of the following reasons:

a. Resignation.

b. Discharge.

c. Failure to notify Company within three days after registered mail notice of recall from layoff of his/her return to work. Must report to work within seven days.

d. Absence due to layoff for nine months.

e. If the associate overstay a leave of absence.

f. If the associate gives a false reason for a leave of absence, or engages in other employment during such leave.

g. If the associate is retired.

h. If the associate intentionally falsifies information on his application for employment.

i. If the associate is absent from work for off-the-job illness or injury in excess of nine calendar months or for on-the-job illness or injury in excess of 15 calendar months.

j. Failure to report for a period of three consecutive days without notifying the Company.



k. Failure to report for a period of two consecutive regular workdays without notifying the Company, unless the associate can prove that such notification was physically impossible.

Section 4. Each new or rehired associate shall be on probation for the first 90 calendar days of employment or re-employment in the bargaining unit. Upon satisfactory completion of said probationary period, seniority will be computed from the date of hire, or most recent date of rehire, with the Company. Absence from work will extend the probationary period for a period of time equivalent to the length of such absence. At any time during the probationary period, an associate may be discharged for any reason. Such associate so discharged shall not have any recourse under this Agreement, including the right to file a grievance.

Section 5. The parties agree that supervisors will not perform the work of the parties they supervise except during training, demonstration, and safety education.

For the purpose of training an associate, the supervisor must perform the training in the immediate area with the associate being trained, with exception of training in Company training centers, meeting rooms, or off-site locations.

It is understood that after making all reasonable efforts to use bargaining unit employees to perform bargaining unit work, the Company may use any other temporary means of covering this work.

Other associates of the Company not in the bargaining unit may work in the Distribution Center, as part of a training and development program. Participation in bargaining unit work is limited to one week per individual per year. This developmental program will not reduce Distribution Center associates' workload.

Upon occasion, vendors will be allowed to construct or put together samples for use in Company training or merchandising programs.

#### Section 6. - Bid Process

Associates with seniority, if they have the ability to perform the necessary work, shall have their choice, according to their seniority, of posted jobs subject to the following conditions:

##### A. Bid Process

1. The bids shall list job classification (description), days of work, regular starting and quitting time. There will be at least one bid position for each job classification. The number of job classifications will be determined by the Company as required by need to support the Distribution Center.
2. Associates will be notified at least two weeks in, advance of a change in their regularly scheduled starting time.
3. During the course of the work day, and day-to-day basis, if it becomes necessary to re-assign associates, it will be done on the basis of need as determined by management.
  - a. All vacant bids and new openings created within the course of a 12 month period shall be posted for bid by associates for two working days and shall be awarded by seniority to qualified applicants at the start of following work week. These bid openings are limited to percentages stated in Article #10, Sec. 6, A6.

b. No more than two bids posted to fill open position after initial bid.

4. Jobs will be awarded to the most senior associate bidding on said job who has the ability to perform the job.

5. There shall be three bids for job preference and improvement during the contract. The bids shall be bid by August 31, 1999, and approximately 12 months thereafter. If there is an addition or reduction in staff of twenty-five percent (25%) or more within any 90 day period, it will automatically cause a bid to occur within 30 days.

6. The jobs to be bid will be determined by the Company; however, the Company agrees that at least seventy-five percent (75%) of the eligible associates in the unit will be on bid jobs. Leads will not be counted as part of 75%. Remaining associates shall be designated as floaters.

7. Each floater will be assigned on the basis of his/her preference to the most senior associates. If more than one picking job is available, choices will be by seniority. When job preference assignments have been exhausted, jobs will be assigned.

Other floater job assignments, which do not fall into one of the above categories, will be offered on the basis of seniority.

During the course of the work day, if it becomes necessary to reassign floaters, it will be done on a basis of need as determined by management.

## ARTICLE 11 - ARBITRATION & GRIEVANCES

Any complaint, disagreement or difference of opinion between the Company, the Union or the associates covered by this Agreement which concerns the interpretation or application of the terms and provisions of this Agreement will be considered a grievance.

Any associate, the Union or the Company may present a grievance. Any grievance which is not presented within seven days following knowledge of the event giving rise to such grievance shall be forfeited and waived by the aggrieved party.

The procedure for handling grievances shall be as follows: first, the associate (with or without the steward) and the associate's immediate supervisor shall discuss and attempt to adjust such grievance. If this attempt to settle the grievance fails, then the steward representing the Union and the Company's DC Manager or Operations Manager shall discuss and attempt to adjust such grievance.

If these two are unable to settle the grievance, said grievance shall be submitted in writing by the Union Business Agent to the Company's DC Manager. Said written submission shall clearly set forth the issues of contention of the aggrieved parties. Failure to follow the above procedure will result in forfeiture of the grievance by the aggrieved party.

If the Union's and the Company's designated representatives cannot reach an agreement within five days, upon request of either party, the grievance shall be submitted to an arbitrator. The Company and the Union shall select the arbitrator by mutual agreement. In the event the parties are unable to agree upon an arbitrator within five days, an arbitrator shall be selected by each party.

striking two names from a list of five arbitrators to be furnished by the Federal Mediation and Conciliation Service. The arbitrator shall be impartial and possess skill and knowledge of labor-management relations. A time limit of 15 days shall be placed on the rendering of the arbitrator's decision.

The arbitrator shall receive and consider such material evidence and contentions as the parties may offer and shall make such independent investigation as he/she deems essential to a full understanding and determination of the issues involved.

The arbitrator shall not be vested with power to change, modify or alter any of the terms of this Agreement. All grievances submitted shall present an arbitrable issue under this Agreement, and shall not depend on or involve an issue of contention by either party which is contrary to any provision of this Agreement, or which involves the determination of a subject matter not covered by or arising during the term of this Agreement.

The findings and decisions of the arbitrator on all arbitrable questions shall be binding and enforceable on all parties. If either party refuses to abide by the final decision of the arbitrator on the merits of a grievance, the other party may apply economic sanctions.

It is the intention of the parties that this Article 11 shall provide a peaceful method of adjusting grievances so that there shall be no suspension or interruption of normal operations as a result of any grievances. The parties shall act in good faith in proceeding to adjust grievances in accordance with the provisions of this Article.

The expenses of the arbitrator shall be borne equally by the parties to the arbitration.

It is agreed that there will be no stoppage of work or lockouts pending settlement of a dispute, in accordance with the grievance procedure herein established.

#### **ARTICLE 12 - STRIKES & LOCKOUTS**

The Union will not cause or officially sanction its members to cause or take part in any strike, sit-down, or stay-in or slow-down, or any other stoppage in the operations of the business of the Company; nor will the local management lock out any associate or transfer any job under dispute from local plant until all the procedures mentioned in the foregoing grievance procedure shall have been employed without success.

#### **ARTICLE 13 - PICKET LINE**

It shall not be a violation of this Agreement and it shall not be cause for discharge or disciplinary action in the event an associate refuses to enter upon any property involved in a lawful primary labor dispute or refuses to go through or work behind any lawful primary picket line, including the lawful primary picket line of unions party to this Agreement and including lawful primary picket lines at the Company's place or places of business.

#### **ARTICLE 14 - CONFLICT OF LAWS**

Nothing contained herein is intentionally in conflict with any existing federal, state or local laws or any rules or regulations made pursuant thereto. In the event that any article or portion of any article of this Agreement proves to be in conflict with any such law or rule or regulation, only the

conflicting article or portion thereof, as the case may be, shall be abrogated and all of the terms and conditions of this Agreement shall continue in full force and effect.

#### **ARTICLE 15 - LEAVE OF ABSENCE**

The Company agrees to grant the necessary and reasonable time off (not to exceed 30 days) without discrimination or loss of seniority rights and without pay, to any associate designated by the Union to attend a labor convention or serve in any capacity on other official Union business, provided 48 hours written notice is given to the Company by the Union, specifying the length of time off. The Union agrees that in making its request for time off for Union activities, due consideration shall be given to the number of associates affected in order that there shall be no disruption of the Company's operations due to lack of available associates.

Any associate desiring a leave of absence must secure the prior written approval of both the Company and the Union. The giving of such written approval shall be within the discretion of the Company and the Union. The maximum leave of absence shall be for 30 days and may be extended for like periods. Permission for extension must be secured from both the Union and the Company. Failure to comply with this provision shall result in the complete loss of seniority of the associate involved.

#### **ARTICLE 16 - EXTRA-CONTRACT AGREEMENTS**

The Company agrees not to enter into any agreement or contract with associates in the bargaining unit, individually or collectively, which in any way conflicts with the terms and provisions of this Agreement.

#### **ARTICLE 17 - REVIEW OF DISCREPANCY IN PAY**

Any discrepancy in pay of any associate in the bargaining unit may be taken up by the Union with the Operating Manager, who will review with the Union Representative the computation of such pay.

#### **ARTICLE 18 - LOSS OR DAMAGE**

Associates shall not be charged for loss or damage unless clear proof of negligence is shown, or is the result of the intentional act of the associate.

#### **ARTICLE 19 - BONDS**

Should the Company require any associate to give bond, cash bond shall not be compulsory, and any premium involved shall be paid by the Company, and in the event any associate cannot qualify for such bond with the bonding company selected by the Company, and in the amount required, the Company shall have the right to release and discharge said associate and said release or discharge shall not be a violation of any of the terms and conditions of this Agreement.

#### **ARTICLE 20 - PHYSICAL EXAMINATIONS**

Physical examinations required by the Company shall be promptly complied with by all associates, provided, however, the Company shall pay for all such examinations.

#### **ARTICLE 21 - COMPENSATION CLAIMS**

The Company agrees to cooperate toward the prompt disposition of associate on-the-job injury Worker's Compensation claims. The Company shall provide Worker's Compensation protection for all associates covered by this Agreement. An associate injured on the job will be paid for the



entire day if the associate is required to leave work. Following the initial day of injury, each associate may choose to use either his accumulated sick days or vacation days to continue receiving pay until worker's compensation starts. Otherwise, no pay shall be forthcoming for that period when the associate is unable to work.

#### **ARTICLE 22 - MILITARY SERVICE**

Associates enlisting or entering the military or naval service of the United States, pursuant to the provisions of the Uniform Services Employment and Re-employment Rights Act, U.S. Code Chapter 43 Title 38, shall be granted all rights and privileges provided by the Act.

#### **ARTICLE 23 - EQUIPMENT**

The Company shall not require associates to operate any vehicle or forklift truck that is not in safe operating condition or equipped with the safety appliances prescribed by law. It shall not be a violation of this Agreement where associates refuse to operate such equipment unless such refusal is unjustified. All forklift trucks used for stacking will have an overhead safety shield. The Company, upon receipt of proper documentation, shall pay fifty percent (50%) of the cost of safety shoes, provided that said payment shall not exceed fifty dollars (\$50.00) in any 12 month period.

#### **ARTICLE 24 - PAID-FOR-TIME**

All associates covered by this Agreement shall be paid for all time spent in the service of the Company. Time shall be computed from the time the associate is directed to report to work and until he/she is released from duty, but no overtime shall be paid except when specifically directed by the Company or its authorized representative.

## ARTICLE 25 - GROUP BENEFIT PLANS

### Section 1 - Company Plans

All associates covered by this Agreement shall be subject to the provisions of and will be entitled to the benefits of the Company's group benefit program as follows:

- A. The Tractor Supply Co., Inc. Associate Benefit Plan;
- B. Sick Pay and Extended Sick Pay Plan (see Section 2 and 3 below); and
- C. 401 (k) Plan;

as said Plans are presently constituted or as said Plans may be amended by the Company from time to time. The parties understand and agree that in the event such amendments take place during the term of this Agreement, said amendments will apply automatically to covered associates. It is further agreed that disputes under these Plans will not be subject to the Grievance Procedure, but will be governed solely by the terms of the Plan documents.

### Section 2 - Sick Pay

#### A. Regular Sick Days

1. Normal Benefit: A full-time hourly associate who is absent from work due to a bona-fide personal illness or injury is entitled to one-half (1/2) day for each completed month of service.
2. Accrual of Regular Sick Days: Sick days accrue at the rate of one-half (1/2) day for each continuous month of service, not to exceed six days in any 12 month period. Accrual of benefit begins after 90 days of service.

Associates absent for a period of three or more consecutively scheduled work days will be requested by management to submit a medical doctor's certification of illness and inability to work.

Unused sick days may be accrued from year to year up to a maximum accrual of 30 days. Accrued sick days are to be used only for personal illness or injury and may be used during the first seven calendar days before beginning the extended sick pay plan in Section 3.

3. Payment of Regular Sick Days: All regular sick pay time is paid through the normal payroll system. Sick time may be taken in full or half day amounts.

B. Unused Sick Time - Sick days are intended to be used only for personal illness or injury. Therefore, an associate who quits or is discharged for just cause shall not be entitled to pay for an unused or accrued sick days.

Section 3 - Extended Sick Pay Plan

A regular full-time associate absent from work due to personal illness or injury is entitled to pay under the Company's extended sick pay plan, upon submission of a physician's written statement indicating that the associate is unable to work. Payments will begin after the associate has been continuously absent for at least seven calendar days.

A. Regular Benefit for Full-Time Hourly Associates:

| Length of Service | Full Pay For | Half Pay For |
|-------------------|--------------|--------------|
| At least 6 months | 1 week       |              |
| At least 3 years  | 2 weeks      | 4 weeks      |
| At least 5 years  | 4 weeks      | 6 weeks      |

|                   |          |          |
|-------------------|----------|----------|
| At least 10 years | 6 weeks  | 8 weeks  |
| At least 15 years | 8 weeks  | 10 weeks |
| At least 20 years | 10 weeks | 12 weeks |

B. Payment of Extended Sick Pay: A personnel action form along with the physician's statement must be submitted to the personnel department to initiate extended sick pay benefits.

C. Renewal of Extended Pay Benefits: Extended sick pay benefits are reinstated to the full amount based on Subsection A above 12 months after the first extended sick day is used, provided the associate is actively working during that 12 month period. If the associate is not actively working, extended sick pay benefits will be reinstated one year after return to work.

If an associate is disabled beyond a six month period, extended sick pay would be reinstated 12 months after return to work.

If a work related injury is involved, this policy becomes null and void.

#### Section 4 - Substitution of Paid Leave for Unpaid Leave Provided Under the Family Medical Leave Act

Refer to Family Medical Leave policy in the Tractor Supply Company Human Resources Manual and Handbook for application.

## **ARTICLE 26 - POSTING OF NOTICES**

Bulletin boards will be provided by the Company where notices pertaining to Union matters may be posted by an authorized agent of the Union, provided that such notices are approved by the Company.

## **ARTICLE 27 - UNION COOPERATION**

The Union, as well as members thereof, agrees at all times as fully as it may be within its power, to further the interest of the Company.

## **ARTICLE 28 - SEPARATION OF EMPLOYMENT**

Upon quitting, the Company shall pay all monies due to the associate on associate's normal regular pay days.

## **ARTICLE 29 - EMERGENCY REOPENING OF AGREEMENT**

In the event of war, declaration of emergency, or imposition of civilian controls during the life of this Agreement, either party may reopen the same upon 60 days written notice and request re-negotiation of matters dealing with wages and hours. Upon failure of the parties to agree in such negotiations, either party shall be permitted all lawful economic recourse to support its request for revisions. If the governmental approval of revisions should become necessary, all parties will cooperate to the utmost to attain such approval.

## **ARTICLE 30 - AGREEMENT**

This Agreement is the only agreement between the Company and the Union with respect to the associates covered by this Agreement. It incorporates all terms, provisions and conditions agreed

upon. No change, waiver or modification of any provision of this Agreement shall be binding unless made in writing and signed on behalf of the Company by its authorized officer, and on behalf of the Union by an authorized officer of the Union.

#### **ARTICLE 31 - ENTIRE AGREEMENT**

Section 1. The parties acknowledge that during the negotiations which resulted in this Agreement, each had the unlimited right and opportunity to make demands and proposals with respect to all proper subjects of collective bargaining and that all such subjects have been discussed and negotiated upon and the agreements contained in this Agreement were arrived at after the free exercise of such rights and opportunities. Therefore, the Company and the Union, for the life of this Agreement, each voluntarily and unqualifiably waive the right and each agrees the other shall not be obligated to bargain collectively with respect to any subject or matter not specifically referred to or covered in this Agreement, even though such subject or matter may not have been within the knowledge or contemplation of either or both of the parties at the time they negotiated or signed this Agreement.

Section 2. The parties understand and agree that this Agreement covers all bargained for conditions of employment, and that the Company has the right, at its discretion, to change, modify or amend conditions of employment not so covered as its business judgment dictates.

#### **ARTICLE 32 - INSPECTION PRIVILEGES**

Authorized agents of the Union, after making their presence known to management, shall have access to the Company's establishment during working hours for the purpose of adjusting disputes, investigating working conditions, collection of dues, and ascertaining that the Agreement is

being adhered to, provided that such inspection and visitation is reasonable and does not interfere with the efficient operation of the Employer's business. Company management will notify the Union Steward or other warehouse associate to conduct subject business.

### **ARTICLE 33 - FUNERAL LEAVE**

Section 1. In the event of the death of a mother, mother-in-law, father, father-in-law, sister, sister-in-law, brother, brother-in-law, child, spouse, grandparent, grandchild, grandparent-in-law, son-in-law or daughter-in-law, regular full-time associates will be paid normal pay for time absent from schedule work up to four consecutive days.

Section 2. Payment will be made for Funeral Leave when the associate misses a regularly scheduled work day. Funeral Leave can be applied to the beginning or the end of a vacation period only when that time off would have been granted, regardless of the vacation.

### **ARTICLE 34 - JURY DUTY**

Section 1. Regular full-time associates are entitled to a paid leave from the job for jury duty. In the event the associate is excused or the jury is not in session, the associate will be expected to work even if only for a portion of the work day. Associates are granted a maximum of 30 days per calendar year.

The associate will be reimbursed the difference if jury duty pay is less than normal Company pay.

Section 2. Associates must submit proof from the appropriate authority to verify days served and the amount of compensation received in order to receive the difference between this amount and normal wages. Documents must be submitted on a timely basis.

In the event that documentation cannot be obtained on a timely basis, the personnel department should be contacted to arrange for the issuance of a normal paycheck and subsequent associate reimbursement to the Company of jury duty.

ARTICLE 35 - TERM OF AGREEMENT

This Agreement shall be in full force and effect from August 1, 1999 to and including July 31, 2002, and shall continue in full force and effect from year to year thereafter unless written notice of desire to change or modify this Agreement is served by either party on the other 60 days prior to the date of expiration.

TRACTOR SUPPLY COMPANY

GENERAL DRIVERS & HELPERS UNION,  
LOCAL #554 affiliated with the International  
Brotherhood of Teamsters

By: /s/ Larry Goldberg  
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By: /s/ Jim Sheard  
-----

Title: Vice President-Logistics  
-----

Title: President Local #554  
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Date: October 18, 1999  
-----

Date: October 22, 1999  
-----



## APPENDIX "A" - WAGE RATES

Job classifications under this Agreement will be as follows:

General Warehouse: Shall be required to perform any duties in the warehousing, order processing, receiving or shipping of any materials processed through the warehouse. These duties shall include, but not be limited to, the use of any and all "power equipment."

Part-time General Warehouse: To supplement the full-time workforce, part-time general warehouse may be used. Job duties will be essentially the same as general warehouse, but part-timers may be used for such things as vacation relief, fill-ins for illness, peak workload coverage and other special needs as determined by the Company. Part-timers will work under 1000 hours per year.

### Section 1. Rates for Warehouse Associates

A. The extent of the increases to be granted at these time intervals between the start and the maximum will be based on performance and evaluations.

NEW ASSOCIATES HIRED AS OF AUGUST 1, 1999:

|                         |                  |
|-------------------------|------------------|
| Starting Rate           | \$ 8.50 per hour |
| First Anniversary Date  | 9.25 per hour    |
| Second Anniversary Date | 9.75 per hour    |

CURRENT ASSOCIATES NOT AT CURRENT SALARY CAP EFFECTIVE AUGUST 1, 1999:  
Minimum rate \$8.50 per hour (1st year of service)

|                  |                                                                                                              |
|------------------|--------------------------------------------------------------------------------------------------------------|
| Anniversary date | \$9.25 per hour (employees starting their 2nd year with more than one year but less than 2 years of service) |
| Anniversary date | \$9.75 per hour (employees starting their 3rd year through completion of their 6th year of service)          |
| Anniversary date | \$10.20 beginning 7th year                                                                                   |
| Anniversary date | \$10.72 beginning 8th year                                                                                   |
| Anniversary date | \$11.25 beginning 9th year                                                                                   |
| Anniversary date | \$12.00 beginning 10th year                                                                                  |
| Anniversary date | \$12.25 beginning 11th year                                                                                  |
| Anniversary date | \$12.50 beginning 12th year                                                                                  |

No associate with less seniority will move to the next level of increase prior to the associate above him/her with more seniority. This will be controlled by scheduled DATE OF INCREASE and THE AMOUNT. These step increases will level out by the end of year 2000.

B. Associates at the current salary cap:

|                      |                  |
|----------------------|------------------|
| August 1, 1999 ..... | \$12.75 per hour |
| August 1, 2000 ..... | 13.00 per hour   |
| August 1, 2001 ..... | 13.25 per hour   |

C. Shift Differentials. An associate who works between 2:00 p.m. and 10:00 p.m. will be paid a premium of thirty-five cents (35(cents)) per hour from August 1, 1999 to July 31, 2002.

An associate who works between 10:00 p.m. and 7:00 a.m. will be paid a premium of fifty cents (50(cent)) per hour.

Shift premiums will be counted for the purposes of computing holiday and vacation pay.

Section 2. New hire Part-time Warehouse associates - \$8.00 per hour

Section 3. Lead Person will be paid a premium of \$1.50 per hour. The Company will have sole discretion as to designation of Lead Persons.

Section 4. Learning for Pay Program. Associates will be paid a premium of fifteen cents (15(cent)) per hour for proof of successful completion of a Company approved course administered by a Company approved college or junior college.

Section 5. Work in the Store Program. Subject to Company discretion, associates may participate in the "Work in the Store Program" for up to one week per year.

Section 6. No Reduction in Pay. No current associate will suffer a reduction in pay as a result of the implementation of the wage program set forth in Section 1 of this Appendix "A".

## **APPENDIX "B" - PART-TIME PROGRAM**

The intent of the Part-time Program is to supplement the full-time work force and to cover vacation relief, illness or handle peak workload coverage or other special needs. Hours will be determined by management.

Regular Company policy will apply, which is as follows:

- Part-time associates normally work less than 30 hours a week.
- Part-time associates do not receive time off benefits.
- A part-time associate who is promoted to a full-time position will receive 50% credit for all past service and will begin to accrue benefits from the date of the promotion.
- Health care and 401(k) eligibility will be determined by the terms of those plan documents.

In addition, the following will be our understanding:

- Part-timer associates will be on a separate seniority list.
- Part-timer associates will be laid off before full-time associates.
- Full-timers will be offered overtime opportunities before part-timers will be used. Part-time associates may be used to supplement the regular workforce on overtime when filling in for vacation relief, illness, handling peak load coverage or other special needs.
- Part-time associates who are promoted to full time will be handled in the following manner:
  - 50% credit for past service principles will apply toward their probationary period.
  - They will receive a full-time seniority date beginning with the date they start full-time work.
  - 50% credit for past service principles will also apply to all service related benefits.

## **APPENDIX "C" - OVERTIME**

1. Bids on daily overtime will be handled in this manner:

A. Scheduled overtime will be offered to associates by shift under the bid classification and by seniority.

B. If there are insufficient associates to work overtime, we will go to the top of the seniority list by shift and associates will be offered overtime based on proven ability to perform the job.

C. If insufficient volunteers, overtime will be assigned by entire seniority list by shift by inverse seniority.

2. Daily call-back overtime:

Associates called back will receive a minimum of one-hour pay at overtime.

3. Day-off overtime and/or emergency:

The following language shall apply in all instances of day-off/emergency overtime other than Saturday overtime:

A. Day-off/emergency response conditions work will be offered to associates by shift under the bid classification and by seniority.

B. If there are insufficient associates to fill overtime, we will go to the top of the seniority list by shift, and associates will be offered overtime based on proven ability to perform the job.

C. If there are insufficient volunteers, overtime will be assigned by entire seniority list by shift by inverse seniority.

D. In the event emergency conditions beyond the control of the Company arise (fire, flood, snow storms, etc.), overtime will be assigned by entire seniority list by inverse seniority.

4. Saturday day overtime:

A. Day-off work will be offered to all associates for all shifts under their bid classification, by seniority under one seniority list.

B. If there are insufficient associates to work overtime, we will go to the top of the overall seniority list for all shifts, and associates will be offered overtime by seniority based on proven ability to perform the job.

C. If there are insufficient volunteers, overtime will be assigned by entire seniority list by shift by inverse seniority.

D. If additional workers are still needed, overtime will be assigned by the entire seniority list by inverse seniority.

## **APPENDIX "D" - DRUG AND ALCOHOL POLICY**

The purpose of the following drug and alcohol policy which has been adopted by Tractor Supply Company, Inc. (the "Company"), is to reduce the possibility of loss caused by an unsafe act or an unsafe condition created by an associate abusing alcohol or drugs. This policy will take effect August 1, 1993, 30 days from the date of posting this notice. Our drug and alcohol policy consists of the following:

1. The Company shall have the right to test all associates and applicants for employment for drug and alcohol use upon the happening of the following events:

A. Application for employment.

B. When probable cause exists to believe the associate is using or is under the influence of alcohol or drugs in the course of his or her employment.

C. Random testing.

2. All drug and alcohol testing performed by the Company or its agent shall be done in accordance with generally accepted procedures, including but not limited to testing of the associate's blood, urine, and/or saliva specimens. The Company will bear all costs associated with testing required as a result of one of the above events or in the event retesting is necessary.

3. Refusal by an associate to submit to drug and alcohol testing as set forth above will constitute just cause for immediate discharge. An associate's refusal to execute a written consent to be tested shall constitute a refusal to be tested and cause for discharge.

4. A. The Company will provide training of each associate on the effects and consequences of the use of controlled substances on personal health, safety, and the workplace.

B. The following acts or omissions by an associate will result in disciplinary actions, which may include immediate dismissal without notice at the Company's discretion:

1. The sale, purchase, transfer, use or possession of any prohibited drug on Company premises or while on Company business.
2. Reporting to or remaining on Company premises or on Company business while impaired by the use of a prohibited drug.
3. By failing or refusing to submit to a drug test as required by the Company policy.

C. Each associate covered under the Company's substance abuse policy will be provided adequate training prior to the implementation of controlled substance abuse testing.

D. "Impaired" means, for purposes of alcohol usage, the retention by the associate, of a blood alcohol content of .10% or more (or .04% or more if the associate's duties include driving a Company vehicle or operating Company machinery) upon testing by breathalyzer or blood test.

E. Controlled substances - means, as defined in 49 CFR Part 40, marijuana, cocaine, opiates, amphetamines, and phencyclidine (PCP).

F. Drug - means any substance (other than alcohol) that is a controlled substance as defined in this section and 49 CFR Part 40.

5. A. The above disciplinary procedure will not apply in the event an associate voluntarily admits or discloses a drug or alcohol use. In the event of such an admission or disclosure, the associate will be placed on a leave of absence, without pay, and the Company shall assist the associate in seeking rehabilitation. This leave of absence shall continue during the period



that an associate is enrolled within a qualified rehabilitation program. The associate will be required to produce evidence from time to time of continuing enrollment in such a program.

**B. Reinstatement of Associate After Positive Test** - An associate who tests positive for the use of a controlled substance and/or alcohol, thereby supplying the Company with grounds for the immediate discharge of the associate, may be reinstated provided the associate agrees to comply with the following conditions:

1. The associate must immediately enroll in a qualified program of evaluation and, if necessary, treatment. The program of evaluation or treatment is to be chosen by the Company. Any cost of rehabilitation shall be borne by the associate, except to the extent covered by the Company's health care plan.
2. Upon receipt of satisfactory progress in the program of evaluation or treatment outlined in 1 above, the associate must submit to a drug and/or alcohol test in which a negative result is obtained. The satisfactory progress report must be received by the Company no later than 30 calendar days from the date that the associate was given notice of the positive test result. If more than 30 calendar days elapse, then the Company shall have grounds to discharge the associate. If a positive test for the use of a controlled substance and/or alcohol is returned after the associate enters a program of evaluation or treatment, then the associate shall be immediately discharged.
3. An associate shall be eligible for reinstatement under this Section on a one-time basis, and the reinstatement is contingent upon the associate returning directly to work for the Company.
4. Upon reinstatement, the associate shall be subject to three additional tests for drugs and/or alcohol without prior notice, with two tests to occur within six months of the reinstatement and the third test to occur within six to 12 months after reinstatement.

6. All test results shall be kept in the strictest confidence.
7. All laboratory tests shall be performed by NIDA Certified Laboratories using cutoff levels as prescribed by the Health and Human Services as may be adjusted from time to time.
8. Random test selections shall be on the basis of computer selection, selecting up to fifty percent (50%) each year.
9. Associates shall be paid for work time lost as a result of testing procedures, including travel time, if the results of the test are negative.
10. Specimen Collection - Specimen collections facilities will be established convenient to Company locations. Specimen collections will be conducted in accordance with the protocols established by the National Institute of Drug Abuse (NIDA) in order to assure the integrity of the specimen.
11. All drug testing and time spent giving a drug test shall be paid for by the Company and shall be done immediately prior to, during, or immediately after the associate's work schedule.

**EXHIBIT 13**

**TRACTOR SUPPLY COMPANY**

[LOGO]

**1999 ANNUAL REPORT**

[PHOTO]

[PHOTO]

Serving the Unique Lifestyle  
Needs of America's Farm,  
Ranch and Rural Customers

[PHOTO]

## COMPANY PROFILE

Since its founding as a mail order tractor parts business in 1938, Tractor Supply Company has grown to be one of the largest operators of retail farm stores in America. The Company supplies the daily farming and maintenance needs of its target customers: hobby, part-time and full-time farmers and ranchers, as well as rural customers, contractors and tradesmen. At the close of fiscal 1999, the Company operated 273 retail farm stores in 26 states. Tractor Supply Company stores typically range in size from 12,000 to 14,000 square feet of inside space and utilize at least as many square feet of outside selling space. An average store displays a comprehensive selection of over 12,000 different products including farm maintenance products (fencing, tractor parts and accessories, agricultural spraying equipment and tillage parts); animal and pet products (specialty feeds, supplements, medicines, veterinary supplies and livestock feeders); general maintenance products (air compressors, welders, generators, pumps, plumbing and tools); lawn and garden products (riding mowers, tillers and fertilizers); light truck equipment; and work clothing. The stores are located in rural communities and in the outlying areas of large cities where the rural lifestyle is a significant factor in the local economy. The Company employs approximately 3,500 people. Tractor Supply Company has been a public company since February 1994. Its stock is traded on The Nasdaq National Market under the symbol "TSCO".

### NUMBER OF STORES BY STATE

[GRAPH]

#### Store Support Center - Nashville, TN

Distribution Center  
Pendleton, IN  
Omaha, NE  
Waco, TX  
Rural Hall, NC

**FINANCIAL HIGHLIGHTS**  
(in thousands, except where noted)

|                                               | FISCAL YEAR |           | PERCENT                |
|-----------------------------------------------|-------------|-----------|------------------------|
|                                               | 1999        | 1998      | INCREASE<br>(DECREASE) |
| OPERATING RESULTS:                            |             |           |                        |
| Net sales                                     | \$688,082   | \$600,677 | 14.6%                  |
| Income before income taxes                    | 30,111      | 25,292    | 19.1                   |
| Net income                                    | 17,874      | 14,800    | 20.8                   |
| Net income per share - basic (\$)             | 2.04        | 1.69      | 20.7                   |
| Net income per share - assuming dilution (\$) | 2.02        | 1.68      | 20.2                   |
| FINANCIAL POSITION:                           |             |           |                        |
| Total assets                                  | 302,630     | 264,649   | 14.4                   |
| Cash and short-term investments               | 6,991       | 18,201    | (61.6)                 |
| Stockholders' equity                          | 138,305     | 119,976   | 15.3                   |
| Long-term debt to equity (%)                  | 39.5        | 30.9      | 27.8                   |
| STATISTICS:                                   |             |           |                        |
| Number of stores (#)                          | 273         | 243       | 12.3                   |
| Square footage at year-end                    | 3,448       | 3,014     | 14.4                   |
| Average sales per store (\$)                  | 2,520       | 2,472     | 1.9                    |
| Net sales per square foot (\$)                | 217         | 206       | 5.3                    |

**NET SALES**  
(in millions)

1995/1999  
[GRAPH]

**TOTAL NUMBER  
of Stores**  
(at Year-End)

1995/1999

[GRAPH]

**AVERAGE SALES  
PER SQUARE FOOT**  
1995/1999

[GRAPH]

As with any business, all phases of the Company's operations are subject to influences outside its control. This report contains certain forward-looking statements. These statements include reference to certain factors, any one, or a combination, of which could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, pricing and other competitive factors, the timing and acceptance of new products in the stores, the mix of goods sold, capital market conditions in general and the seasonality of the Company's business. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

## TO OUR STOCKHOLDERS:

WE BEGIN EACH YEAR WITH VERY AGGRESSIVE GOALS. AS A GROWTH COMPANY, WE WOULDN'T HAVE IT ANY OTHER WAY! OUR GOALS ARE SET BASED ON OUR CORE BUSINESS STRATEGY, WHICH RECOGNIZES THE MOST IMPORTANT BUSINESS CONCERN WE HAVE: OUR CUSTOMER!

[Joe Scarlett]

[Picture]

Our leadership team is absolutely dedicated to our business strategy: to be the most dependable supplier of basic maintenance products to support the lifestyles of our farm, ranch and rural customers. We are clearly focused on the hobby farmer and rancher.

Recent media coverage has dwelled on the plight of the American farmer. It's no secret many of America's large production farms have struggled. On the surface, this might suggest a company like ours would struggle as well. To the contrary, when a large farm stops farming, the land is often sold off in parcels, and the result is a greater number of smaller, part-time farming operations - our core customers! We are not dependent on production agriculture and our research supports that less than 10% of our customers are part of that base. It's the part-time or "hobby" farmers and ranchers that are the backbone of our growth strategy. It's what makes us unique. It's what sets us apart and makes Tractor Supply Company without equal!

Our market niche is truly different from others whom you might consider our competition. We know our customers; we study our customers' needs. We differentiate ourselves through product assortments that are clearly tied to our customers' basic farm and ranch lifestyle needs.

And so our strategy motivates us to drive sales through satisfying our customers. We must be:

- DEPENDABLE - we're fully committed to being in stock - the right product at the right time at everyday low prices!
- KNOWLEDGEABLE - we provide continuing education to our store managers and sales associates about the products we sell. An informed customer is a happy customer (and a repeat customer!).
- ADAPTABLE - we make regular modifications to our product assortments so we're responsive to our customers' needs.

The next few pages of this annual report will expand on our business strategy - who is our customer? What are our customers' needs? And why is ours a unique niche?

We have made considerable investment in our infrastructure to position ourselves to better serve our customers' needs:

- NEW SYSTEMS - a world-class enterprise resource planning system to power our merchandising capabilities,
- NEW CAPACITY - new distribution centers which increase our warehousing area by 40%, and
- NEW STORES - 31 more farm and ranch stores in 1999, all in rural towns and other locations supporting the farm and ranch lifestyle!

We believe these investments will continue to pay off.

Thank you for your continuing support!

Sincerely,

/s/ JOE SCARLETT

-----  
JOE SCARLETT  
Chairman of the Board, President  
and Chief Executive Officer

## **MISSION AND VALUES**

WE SET OUR GOALS BOUND AND DRIVEN BY A CLEAR STATEMENT OF MISSION AND A SOLID VALUE STRUCTURE. AT TRACTOR SUPPLY COMPANY, WE HAVE A STRONG WORK ETHIC AND A COMMITMENT TO A WORKPLACE WHERE EVERYONE IS GIVEN THE OPPORTUNITY TO SUCCEED.

Our mission defines who we are, what we are, and where we are going.

This mission motivates us. It is the driving force behind our success.

We live this mission everyday. Our leadership team reinforces this dedication.

We communicate "success stories" throughout the organization. Through demonstrated commitment to legendary service, we all win - especially our customers and, you, our stockholders!

Our values are the structure beneath our strategy. These values are not mere concepts. They embody the spirit of our people. They exemplify the winning attitude, intelligence and commitment we are proud to see in our associates.

Our values demonstrate our core belief in "doing the right thing" and encouraging others to do the same.

Our associates are encouraged to adopt these principles and refer to them regularly. By living out these values, everyone benefits!

## **CONTINUED GROWTH**

Understanding the customer is the key. We measure demographic information that enables us to more effectively locate our stores in the areas where our customers live and shop. With this information, we can more accurately predict each store's success. We've worked the store opening process down to a science. We've shaved two weeks out of the set-up and training time and we're getting to market faster than ever before. That means less start-up costs per unit and enables us to generate sales sooner.

We will continue to focus on new store growth, opening an estimated 40 to 45 new stores in 2000. Large existing markets (Texas - our number one market) and a large new market (Florida - our golden opportunity) will be our primary targets. We will continue to expand, increasing our store count by approximately 12% each year. Steady, controlled growth will generate profitable success. We have a winning formula!

WE ARE FOCUSED ON OUR CUSTOMER AND EMPOWER OUR PEOPLE WITH THE AUTHORITY TO "DO WHATEVER IT TAKES." OUR TEAM HAS GREAT SPIRIT AND TREMENDOUS ENTHUSIASM. WE HAVE A "CAN DO" ATTITUDE. WE ARE POSITIVE, UPBEAT AND FOCUSED. WE ARE WINNERS!

## **OUTLOOK FOR THE FUTURE**

The Company's theme for this year is "Sell!! Sell!! Sell!!" Our managers and sales associates are receiving more sales training this year than ever before. Tractor Supply Company is clearly focused on sales training and sales incentives to drive sales growth all year.

Sales and morale should both get a boost this year with substantially improved "in stock" positions on basic goods now that our computer replenishment systems have smoothed out. We are working diligently to improve our inventory turn in order to generate more positive financial performance.

We believe that 2000 will be an excellent year. Our systems are working well, the new distribution centers are functioning efficiently, our marketing programs are more targeted and aggressive than ever and we have a commitment to basic functional execution throughout the organization.

## **THE FULL TIME OPPORTUNITY WITH PART TIME FARMERS/RANCHERS**

In 1999, Tractor Supply Company enjoyed another record year. Chain-wide sales approached \$700 million and 31 new stores were opened. Looking forward, as one of the nation's leading retailers of basic maintenance products for farm, ranch and rural consumers, our prospects have never been brighter. We are perfectly positioned to address the product and service needs of key customer segments.

Part time farming means different things to different people, but to Tractor Supply it just means opportunity.

The "weekend" farmer probably grew up on a farm and would prefer to farm full time. With today's agricultural economy, however, that is not easy. So these folks generally work full time in a manufacturing or service industry, and farm before work, after work, and on weekends. But they are serious about farming, either because it is something they love, or because it is something they need to supplement their income. Because they are cost conscious, these customers buy a lot of repair and maintenance products. They are much more likely to fix a piece of equipment than replace it, and that is right up Tractor Supply Company's alley.

The "pleasure" or "hobby" farmer may have grown up on a family farm as well, or they may have taken up farming on a small scale as a form of relaxation. In either case, these customers farm because they want to, not because they need to, and it is not uncommon for them to spend more on their "hobby" than they earn from farming. They probably have a few head of cattle and a few horses. We see these customers regularly, give them lots of advice and sell them a range of basic farm supplies, along with tons of feed and related animal care products.

The "gentleman" farmer is even more upscale and is really into farming as a lifestyle more than anything else. This customer segment is composed of successful business executives, dentists, doctors, lawyers, etc. They work in the city and commute 30 minutes to an hour so they can live and raise their children in a more rustic, rural setting. While they do not really do a lot of serious farming, they are serious about the lifestyle. They often own horses or other livestock and they purchase a lot of tools and power equipment - garden tractors, tillers, etc.

There is a tendency to think of part time farmers as "farmer wannabes," rather than as a significant factor in today's farm economy. At Tractor Supply Company, we know nothing could be further from the truth. According to the most recent Census of Agriculture, farms generating less than \$10,000 in annual income represent half of all farms in the U.S. The "Under \$10,000" segment spends more than \$5.5 billion annually on farm supplies, and it is the only farm income segment that is growing.

So when we see "For Sale" in front of a 1,500 acre spread, we don't see a lost customer. We see ten new customers, each with 150 acres to



fence, each with a large lawn to mow, each with livestock, horses, dogs and cats to feed, each with a need for the kinds of products we sell.

We're perfectly positioned to service our core customers and meet their daily lifestyle needs.

## **OUR EVOLVING CUSTOMERS' EVOLVING PRODUCT NEEDS**

**[PHOTO] [PHOTO] [PHOTO] [PHOTO]**  
**Products Products Products Person**

As our customer mix has shifted through the years, so too has the assortment of products we carry to meet our customers' needs. While we are dedicated to continuing our heritage as the most dependable supplier of basic farm and ranch maintenance products, in recent years we have enjoyed tremendous success through expansion of certain categories with broader consumer appeal.

**[PHOTO] [PHOTO]**  
**Person Products**

The growth of our Equine product line is a good example. In the trade areas where we locate stores there is an extremely high index of households with horses. These folks may or may not be involved in farming or ranching, but they are passionate about their horses.

For years, Tractor Supply Company has offered horse feed, fencing and a few core equine oriented products. But more recently we have made a dedicated effort to position our company as America's leading chain of tack stores. Today we offer the horse lover everything from halters and bits to grooming and medical supplies.

We speak directly to these customers by utilizing a range of equine magazines in our advertising program. Two years ago we began an association with

John Lyons, perhaps today's foremost expert on horse training. John is a valuable spokesman for us as well as a consultant regarding equine product trends and opportunities.

Most people in rural America also own pets. Again, whether they live on a farm or not, they tend to have plenty of dogs and cats. Some have rabbits as well and many are into feeding wild birds. The growth of pet superstores is testimony to the potential of this category. And while we do not attempt to carry everything found in a major pet store, we have recognized the opportunity for expanded offerings of both pet foods and high margin pet supplies.

Retriever, our private-label dog food, is one of the largest selling items in our company. In addition to generating significant sales volume, the Retriever line stimulates frequent visits from a broad base of customers. We have recently seen incremental sales from the addition of national brands, and plans are to continue building this category by adding high end, nutritionally focused pet foods traditionally distributed only by veterinarians or through specialty retailers. The pet category, like the equine category, serves a dual purpose of addressing the needs of our core customer base while, at the same time, giving Tractor Supply Company relevance to an entirely new set of consumers.

Another category delivering more sales and, importantly, attracting new customers, is Lawn and Garden. Many of our stores are located on the fringes of major metro areas - kind of on the

outskirts of suburbia. Five or ten years ago these trade areas were composed primarily of full and part time farmers/ranchers, so they were very solid markets for us. Today, as a few farms have sold and subdivisions have popped up, these markets have grown even stronger. They still offer a good mix of our core farmers/ranchers, but there has been a significant addition of middle income suburban homeowners. And what is the first thing every homeowner with an acre of property needs - a riding mower! Riding mowers and an array of lawn and garden materials - from seed and fertilizer to rakes and pruning shears appeals to this expanding Tractor Supply Company customer segment. In some cases, we get the business because we are more convenient and easier to shop than a "big box" home center or discount store. In other cases, it is because our unique farm store shopping experience is what this customer really wants. That, after all, is why they left the city.

## **THE INTERNET**

The Internet has brought us another means of learning about and understanding our customers and potential customers. Through visits to our website, our customers inform us about their product interests and service needs. We will continue to expand our website with greater and more interactive capabilities to ensure we keep an open communication and a clear link to our customers.

As you can see, our focus on our customers and maintaining an understanding of their needs is vital to our success. Knowing the customer is also the key to growth in our Company: growth in comparable store sales, growth in the number of stores and growth in profit. We are simply dedicated to exceeding our customers' expectations through proper product assortments, legendary service and everyday low prices.

Total customer satisfaction - we wouldn't have it any other way!

**[PHOTO] [PHOTO] [PHOTO]**  
**Person Products Products**

## FIVE YEAR SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

|                                                | FISCAL YEAR ENDED                                   |                      |                      |                      |                      |
|------------------------------------------------|-----------------------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                                | (IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA) |                      |                      |                      |                      |
|                                                | JANUARY 1,<br>2000                                  | DECEMBER 26,<br>1998 | DECEMBER 27,<br>1997 | DECEMBER 28,<br>1996 | DECEMBER 30,<br>1995 |
| <b>OPERATING RESULTS:</b>                      |                                                     |                      |                      |                      |                      |
| Net Sales                                      | \$ 688,082                                          | \$ 600,677           | \$ 509,052           | \$ 449,029           | \$ 383,903           |
| Gross margin                                   | 181,251                                             | 154,638              | 131,542              | 116,651              | 98,656               |
| Selling, general and administrative expenses   | 139,725                                             | 120,734              | 104,661              | 88,827               | 73,587               |
| Depreciation and amortization                  | 7,311                                               | 5,342                | 4,509                | 3,385                | 2,524                |
| Income from operations                         | 34,215                                              | 28,562               | 22,372               | 24,439               | 22,545               |
| Interest expense, net                          | 4,104                                               | 3,270                | 2,439                | 2,358                | 1,730                |
| Income before income taxes                     | 30,111                                              | 25,292               | 19,933               | 22,081               | 20,815               |
| Income tax provision                           | 12,237                                              | 10,492               | 8,172                | 8,845                | 8,293                |
| Net income                                     | \$ 17,874                                           | \$ 14,800            | \$ 11,761            | \$ 13,236            | \$ 12,522            |
| Net income applicable to common stockholders   | \$ 17,874                                           | \$ 14,800            | \$ 11,705            | \$ 13,039            | \$ 12,165            |
| Net income per share - basic (a)               | \$ 2.04                                             | \$ 1.69              | \$ 1.34              | \$ 1.50              | \$ 1.40              |
| Weighted average common shares outstanding     | 8,761                                               | 8,742                | 8,725                | 8,718                | 8,718                |
| <b>OPERATING DATA:</b>                         |                                                     |                      |                      |                      |                      |
| Gross margin                                   | 26.3%                                               | 25.7%                | 25.8%                | 26.0%                | 25.7%                |
| Selling, general and administrative expenses   | 20.3%                                               | 20.1%                | 20.5%                | 19.8%                | 19.2%                |
| Income from operations                         | 5.0%                                                | 4.7%                 | 4.4%                 | 5.4%                 | 5.9%                 |
| Net income                                     | 2.6%                                                | 2.5%                 | 2.3%                 | 2.9%                 | 3.3%                 |
| <b>Number of stores:</b>                       |                                                     |                      |                      |                      |                      |
| Beginning of year                              | 243                                                 | 228                  | 208                  | 185                  | 165                  |
| New stores                                     | 31                                                  | 15                   | 22                   | 23                   | 20                   |
| Closed stores                                  | (1)                                                 | --                   | (2)                  | --                   | --                   |
| End of year                                    | 273                                                 | 243                  | 228                  | 208                  | 185                  |
| Number of relocated stores                     | 1                                                   | 1                    | 1                    | 4                    | 2                    |
| Number of remodeled stores (b)                 | --                                                  | --                   | --                   | 1                    | 6                    |
| Total selling square footage at period end (c) | 3,448,347                                           | 3,014,196            | 2,806,864            | 2,543,575            | 2,237,755            |
| Average sales per store (in thousands)         | \$ 2,520                                            | \$ 2,472             | \$ 2,233             | \$ 2,159             | \$ 2,075             |
| Net sales per square foot of selling space     | \$ 217                                              | \$ 206               | \$ 191               | \$ 185               | \$ 178               |
| Comparable store sales increase (d)            | 4.4%                                                | 10.9%                | 3.1%                 | 2.5%                 | 3.1%                 |
| <b>BALANCE SHEET DATA (AT END OF PERIOD):</b>  |                                                     |                      |                      |                      |                      |
| Working capital                                | \$ 117,306                                          | \$ 95,530            | \$ 82,869            | \$ 65,954            | \$ 63,850            |
| Total assets                                   | 302,630                                             | 264,649              | 224,080              | 195,582              | 174,129              |
| Long-term debt, less current portion (e)       | 54,683                                              | 37,132               | 31,134               | 21,166               | 25,858               |
| Redeemable preferred stock                     | --                                                  | --                   | --                   | 1,763                | 3,525                |
| Stockholders' equity                           | 138,305                                             | 119,976              | 104,889              | 92,966               | 79,951               |

(a) Basic net income per share is calculated based on the weighted average number of common shares outstanding applied to net income applicable to common stockholders.

(b) Includes remodelings costing more than \$150,000.

(c) Total selling square footage includes normal selling space and excludes office, stockroom, receiving space and outside selling space.

(d) Comparable store sales increases are calculated on a 52-week basis, excluding relocations, using all stores open at least one year.

(e) Long-term debt includes borrowings under the Company's principal revolving credit agreements, term loan agreements and amounts outstanding under its capital lease obligations, excluding the current portions of each.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis describes certain factors affecting Tractor Supply Company's (the "Company") results of operations for the three fiscal years ended January 1, 2000 and its liquidity and capital resources. This discussion should be read in conjunction with the financial statements and notes thereto included elsewhere in this Annual Report. The following discussion and analysis also contains certain historical and forward-looking information. The forward-looking statements 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 the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), business strategy, expansion and growth of the Company's business operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, the Company is identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by or on behalf of the Company.

All phases of the Company's operations are subject to influences outside its control. Any one, or a combination, of these factors could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, pricing and other competitive factors, the ability to identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources and other capital market conditions and the seasonality of the Company's business. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

The Company's fiscal year ends on the Saturday closest to December 31. Fiscal year 1999 consists of 53 weeks, while fiscal years 1998 and 1997 consist of 52 weeks.

### **OVERVIEW**

Since its founding as a mail order tractor parts business in 1938, the Company has grown to be one of the largest operators of retail farm stores in America. The Company supplies the daily farming and maintenance needs of its target customers: hobby, part-time and full-time farmers and ranchers, as well as rural customers, contractors and tradesmen. The Company's stores typically range in size from 12,000 to 14,000 square feet of inside selling space and utilize at least as many square feet of outside selling space. An average store displays a comprehensive selection of over 12,000 different products including farm maintenance products (fencing, tractor parts and accessories, agricultural spraying equipment and tillage parts); animal and pet products (specialty feeds, supplements, medicines, veterinary supplies and livestock feeders); general maintenance products (air compressors, welders, generators, pumps, plumbing and tools); lawn and garden products (riding mowers, tillers and fertilizers); light truck equipment; and work clothing. The stores are located in rural communities and in the outlying areas of large cities where the rural lifestyle is a significant factor in the local economy. The Company does not sell large tractors, combines, bulk chemicals or bulk fertilizers.

Over the past six fiscal years since the Company's initial public offering in February 1994 (the "Offering"), the Company has opened 124 new retail farm stores: 13 in fiscal 1994, 20 in fiscal 1995, 23 in fiscal 1996, 22 in fiscal 1997, 15 in fiscal 1998 and 31 in fiscal 1999. These new stores have increased the Company's market presence in the Southwest, primarily in Texas, and in the Southeast, primarily in Tennessee, Kentucky and North Carolina. This expansion brings the Company's total store count to 273 (in 26 states) as of January 1, 2000. The Company plans to open an additional 40 to 45 stores in fiscal 2000 (approximately 12 of which are scheduled to open in the first quarter of fiscal 2000), 38 in fiscal 2001 and additional stores thereafter. In total over the past six fiscal years since the Offering, the Company has opened, relocated or remodeled 146 stores.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Between fiscal year 1994 and fiscal year 1999, net sales increased from \$330.0 million to \$688.1 million and net income increased from \$11.3 million to \$17.9 million, reflecting a five-year compound annual growth rate of 15.8% and 9.7%, respectively. The Company generated these growth rates primarily from increases in comparable store sales and through new store openings and relocations of existing stores. Comparable stores sales increased 4.4%, 10.9% and 3.1% in fiscal 1999, 1998 and 1997, respectively. Since 1994, the 105 new or relocated stores that have been open more than one year have generated average net sales that are approximately 21.3% per annum greater than those of existing stores.

### SEASONALITY AND WEATHER

The Company's business is highly seasonal. Historically, the Company's sales and profits have been the highest in the second and fourth fiscal quarters of each year due to planting and harvesting seasons and the sale of seasonal products. The Company has typically operated at a net loss in the first fiscal quarter of each year. Unseasonable weather, excessive rain, drought, and early or late frosts may also affect the Company's sales. The Company believes, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of its stores.

The Company experiences a buildup of inventory and accounts payable during its first fiscal quarter each year for purchases of seasonal product in anticipation of the April through June selling season and again during its third fiscal quarter in anticipation of the October through December selling season.

The Company's unaudited quarterly operating results for each fiscal quarter of 1999 and 1998 are shown below (dollars in thousands, except per share amounts):

|                                                 | FIRST<br>QUARTER | SECOND<br>QUARTER | THIRD<br>QUARTER | FOURTH<br>QUARTER | TOTAL     |
|-------------------------------------------------|------------------|-------------------|------------------|-------------------|-----------|
| -----                                           |                  |                   |                  |                   |           |
| 1999                                            |                  |                   |                  |                   |           |
| Net sales                                       | \$ 125,647       | \$214,124         | \$160,214        | \$188,097         | \$688,082 |
| Gross margin                                    | 32,192           | 55,519            | 41,623           | 51,917            | 181,251   |
| Income (loss) from operations                   | (1,131)          | 17,811            | 5,624            | 11,911            | 34,215    |
| Net income (loss)                               | (1,140)          | 10,125            | 2,647            | 6,242             | 17,874    |
| Net income (loss) per share - basic             | (.13)            | 1.16              | .30              | .71               | 2.04      |
| Net income (loss) per share - assuming dilution | (.13)            | 1.14              | .30              | .71               | 2.02      |
| 1998                                            |                  |                   |                  |                   |           |
| Net sales                                       | \$ 105,587       | \$196,081         | \$140,628        | \$158,381         | \$600,677 |
| Gross margin                                    | 26,489           | 49,248            | 36,433           | 42,468            | 154,638   |
| Income (loss) from operations                   | (1,710)          | 16,273            | 4,486            | 9,513             | 28,562    |
| Net income (loss)                               | (1,502)          | 9,168             | 2,137            | 4,997             | 14,800    |
| Net income (loss) per share - basic             | (.17)            | 1.05              | .24              | .57               | 1.69      |
| Net income (loss) per share - assuming dilution | (.17)            | 1.04              | .24              | .56               | 1.68      |

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items in the Company's Statements of Income expressed as a percentage of net sales:

|                                              | FISCAL YEAR ENDED  |                      |                      |                      |                      |
|----------------------------------------------|--------------------|----------------------|----------------------|----------------------|----------------------|
|                                              | JANUARY 1,<br>2000 | DECEMBER 26,<br>1998 | DECEMBER 27,<br>1997 | DECEMBER 28,<br>1996 | DECEMBER 30,<br>1995 |
| Net sales                                    | 100.0%             | 100.0%               | 100.0%               | 100.0%               | 100.0%               |
| Cost of merchandise sold                     | 73.7               | 74.3                 | 74.2                 | 74.0                 | 74.3                 |
| Gross margin                                 | 26.3               | 25.7                 | 25.8                 | 26.0                 | 25.7                 |
| Selling, general and administrative expenses | 20.3               | 20.1                 | 20.5                 | 19.8                 | 19.2                 |
| Depreciation and amortization                | 1.0                | 0.9                  | 0.9                  | 0.8                  | 0.6                  |
| Income from operations                       | 5.0                | 4.7                  | 4.4                  | 5.4                  | 5.9                  |
| Interest expense, net                        | .6                 | 0.5                  | 0.5                  | 0.5                  | 0.4                  |
| Income before income taxes                   | 4.4                | 4.2                  | 3.9                  | 4.9                  | 5.5                  |
| Income tax provision                         | 1.8                | 1.7                  | 1.6                  | 2.0                  | 2.2                  |
| Net income                                   | 2.6%               | 2.5%                 | 2.3%                 | 2.9%                 | 3.3%                 |

## FISCAL 1999 COMPARED TO FISCAL 1998

Net sales increased 14.6% to \$688.1 million in fiscal 1999 from \$600.7 million in fiscal 1998. This increase resulted primarily from new store openings and relocations, and, to a lesser extent, a comparable store sales increase of 4.4% (calculated on a 52-week basis, excluding relocations, using all stores open at least one year) and an additional week of operations (due to the Company's fiscal year-end). Comparable store sales for fiscal 1999 benefited from the "remerchandising" of the remaining approximately 60% of the inside of all stores, consisting of the entire "left-side" of the store (including tools, hardware, plumbing, electrical, paint, truck accessories, towing accessories and lubricant departments) and portions of the center aisle (mainly electrical fencing) and "agricultural sections" (including tractor parts and the equine department) as well as the new and more aggressive marketing programs. The Company opened 31 new stores, closed one store and relocated one store in fiscal 1999. The Company opened 15 new stores and relocated one store during fiscal 1998. At January 1, 2000, the Company operated 273 retail farm stores versus 243 stores at the end of the prior fiscal year.

In early fiscal 2000, the Company plans to remerchandise the tool corral area (consisting primarily of compressors, welders, pressure washers, generators and hand tools), improve product assortments in fencing and core agricultural maintenance products and expand product offerings in the equine, pet and bird feeding departments. This strategy reflects the Company's continued belief, supported by the results of fiscal 1999 and 1998, that such efforts will rejuvenate the stores, create excitement with the customers and store associates and build stronger comparable store sales.

The gross margin rate increased .6 percentage points to 26.3% of sales in fiscal 1999 from 25.7% in fiscal 1998. This increase is primarily due to remerchandising efforts and better product assortments, as well as lower costs from increased buying leverage through vendor consolidation.

As a percent of sales, selling, general and administrative expenses increased .2 percentage points to 20.3% for fiscal 1999 from 20.1% for fiscal 1998. On an absolute basis, selling, general and administrative expenses increased 15.7% to \$139.7 million for fiscal 1999 from \$120.7 million in fiscal 1998. The increase in expenses on a percentage-of-sales basis is primarily as a result of costs associated with new stores, the incremental costs of certain planned infrastructure investments as well as the leverage loss attributable to the lower than anticipated comparable store sales performance. The increase in absolute dollars is primarily due to costs associated with new store openings (new stores have

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

considerably higher occupancy costs, primarily rent, than the existing store base), as well as an additional week of operating expenses (fiscal 1999 reflects 53 weeks of operations compared to fiscal 1998 which is comprised of 52 weeks) and a non-recurring expense of approximately \$1 million relating to the Company's relocation of two of its distribution centers.

During fiscal 1998, the Company began an annual major media advertising program which includes a national television campaign featuring a celebrity spokesperson, significantly expanded use of radio promotions and increased print advertising. This program is funded each year through the support of the Company's vendor partners. During fiscal 1999, the Company received marketing support funds totaling approximately \$11.9 million from certain of its vendors to cover a portion of the costs of these new programs.

Depreciation and amortization expense increased 36.9% over the prior year due mainly to costs associated with new and relocated stores and increased investment in infrastructure (mainly the merchandise and warehouse management system).

Net interest expense increased 25.5% in fiscal 1999 from fiscal 1998. The increase in interest expense reflects additional borrowings under the Credit Agreement to fund the Company's growth and expansion plans, resulting in a higher average outstanding debt balance in fiscal 1999 compared to fiscal 1998.

The Company's effective tax rate decreased 0.9 percentage points to 40.6% in fiscal 1999 from 41.5% in fiscal 1998 primarily due to a lower effective state income tax rate in fiscal 1999.

As a result of the foregoing factors, net income increased 20.8% to \$17.9 million in fiscal 1999 from \$14.8 million in fiscal 1998. As a percent of sales, net income increased 0.1 percentage point to 2.6% of sales in fiscal 1999 from 2.5% of sales in fiscal 1998.

### **FISCAL 1998 COMPARED TO FISCAL 1997**

Net sales increased 18.0% to \$600.7 million in fiscal 1998 from \$509.1 million in fiscal 1997. This increase resulted primarily from a comparable store sales increase of 10.9% (calculated on a 52-week basis, excluding relocations, using all stores open at least one year) and, to a lesser extent, new store openings and relocations. Comparable store sales for fiscal 1998 benefited from the "remerchandising" of the "right side" (including expanding the equine, pet supplies, animal health and feed departments and refining the apparel and agricultural supplies departments) and portions of the "center aisle" (mainly enhancing the lawn and garden departments) of all stores early in fiscal 1998, the new and more aggressive marketing programs, an improved inventory in-stock position and favorable spring season and later winter weather conditions. The Company opened 15 new stores and relocated one store during fiscal 1998. The Company opened 22 new stores, closed two stores and relocated one store in fiscal 1997. At December 26, 1998, the Company operated 243 retail farm stores versus 228 stores at the end of the prior fiscal year.

The gross margin rate decreased .1 percentage point to 25.7% of sales in fiscal 1998 from 25.8% in fiscal 1997. This decrease resulted primarily from lower gross margin rates in certain product categories (mainly due to additional seasonal markdowns and more aggressive promotional activities, principally additional discounting of select items in the Company's print advertising and additional discounting associated with the new stores' grand openings), offset, in part, by leverage improvements in both freight and shrinkage expense.

As a percent of sales, selling, general and administrative expenses decreased .4 percentage points to 20.1% for fiscal 1998 from 20.5% for fiscal 1997. On an absolute basis, selling, general and administrative expenses increased 15.4% to \$120.7 million for fiscal 1998 from \$104.7 million in fiscal 1997. The decrease in expenses on a percentage-of-sales basis resulted primarily from the Company's on-going efforts to control increases in its operating expenses as well as from the leverage gain attributable to the strong comparable store sales performance. The increase in absolute dollars was primarily



## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

attributable to costs associated with new store openings (new stores have considerably higher occupancy costs, primarily rent, than the existing store base), as well as higher incentive accruals.

During fiscal 1998, the Company implemented new marketing and advertising programs including (i) increased print advertising (ii) significantly expended radio advertising, and (iii) for the first time, a national television advertising campaign featuring John Lyons, renowned horse trainer and national equine spokesman for the Company, and George Strait, renowned country music entertainer and national spokesman for the Company. The Company received marketing support funds totaling approximately \$8.5 million from certain of its vendors to cover a portion of the costs of these new programs.

Depreciation and amortization expense increased 18.5% over the prior year due mainly to costs associated with new and relocated stores.

Net interest expense increased 34.1% in fiscal 1998 from fiscal 1997. The increase in interest expense reflects additional borrowings to fund the Company's growth and expansion plans, resulting in a higher average outstanding debt balance in fiscal 1998 compared to fiscal 1997.

The Company's effective tax rate increased 0.5 percentage points to 41.5% in fiscal 1998 from 41.0% in fiscal 1997 primarily due to a higher effective state income tax rate in fiscal 1998.

As a result of the foregoing factors, net income increased 25.8% to \$14.8 million in fiscal 1998 from \$11.8 million in fiscal 1997. As a percent of sales, net income increased 0.2 percentage points to 2.5% of sales in fiscal 1998 from 2.3% of sales in fiscal 1997.

### **LIQUIDITY AND CAPITAL RESOURCES**

In addition to normal operating expenses, the Company's primary ongoing cash requirements are those necessary for the Company's expansion, remodeling and relocation programs, including inventory purchases and capital expenditures. The Company's primary ongoing sources of liquidity are funds provided from operations, commitments available under its credit agreement and short-term trade credit. The Company's inventory and accounts payable levels typically build in the first and again in the third fiscal quarters in anticipation of the spring and fall selling seasons.

At January 1, 2000, the Company's inventories had increased \$35.6 million to \$207.3 million from \$171.7 million at December 26, 1998. This increase was primarily attributable to additional inventory for new stores, planned inventory increases in seasonal product lines, as well as unplanned inventory increases in certain basic goods and other seasonal product lines (due to problems encountered with the Company's new replenishment system). Short-term trade credit, which represents a source of financing for inventory, decreased \$1.1 million to \$59.8 million at January 1, 2000 from \$60.9 million at December 26, 1998. Trade credit arises from the Company's vendors granting extended payment terms for inventory purchases. Payment terms vary from 30 days to 180 days depending on the inventory product.

At January 1, 2000, the Company had working capital of \$117.3 million, which represented a \$21.8 million increase from December 26, 1998. This increase resulted primarily from an increase in inventory (attributable mainly to the factors described above) without a corresponding increase in accounts payable, offset, in part, by an increase in accrued expenses (mainly incremental costs relating to new stores) and a decrease in cash and cash equivalents. The Company's working capital increased \$12.6 million in fiscal 1998 to \$95.5 million from \$82.9 million in fiscal 1997. This increase resulted primarily from an increase in inventory without a corresponding increase in accounts payable, an increase in cash and cash equivalents and an increase in prepaid expenses (mainly construction-in-progress costs pertaining to planned sale/leaseback transactions respecting certain 1999 new stores) offset, in part, by an increase in accrued expenses (mainly incremental costs relating to new stores and incentives) and an increase in current debt maturities (attributable mainly to the Company's new fixed-rate term loan agreement).

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

In March 1998, the Company entered into an amendment (the "Second Amendment") to its existing revolving credit agreement with BankBoston, N.A. (successor to First National Bank of Boston), a national banking association, as agent, and for itself, in its capacity as a lender thereunder, First American National Bank, a national banking association, and SunTrust Bank Nashville, N.A. ("SunTrust"), a national banking association Bank (the "Credit Agreement"), whereby the Company (i) increased the maximum total commitments available under the Credit Agreement from \$45 million to \$60 million and (ii) extended the expiration date of the Credit Agreement from August 31, 1999 to August 31, 2002 (the date upon which any remaining borrowings must be repaid).

In November 1999, the Company entered into an amendment (the "Third Amendment") to its Credit Agreement with SunTrust (replaced Bank Boston, N.A. as agent), as agent, and for itself, in its capacity as a lender thereunder, AmSouth Bank (successor to First American National Bank), a national banking association, and Bank of America, a national banking association, whereby the Company (i) increased the maximum total commitments available under the Credit Agreement from \$60 million to \$75 million. At January 1, 2000, the Company had \$38.1 million of borrowings outstanding under the Credit Agreement. The Company expects to continue borrowing amounts under the Credit Agreement from time to time to fund its growth and expansion programs and as a source of additional working capital.

In June 1998, the Company entered into a new loan agreement (the "Loan Agreement") and term note (the "Term Note") with SunTrust pursuant to which the Company borrowed \$15 million. The Term Note bears interest at the rate of 6.75% per annum until its maturity in June 2005. The Term Note requires monthly payments equal to \$178,572, plus accrued interest, through June 2005. There are no compensating balance requirements associated with the Loan Agreement. The Loan Agreement is unsecured. The Loan Agreement contains certain restrictions regarding additional indebtedness; employee loans; business operations; guarantees; investments; mergers, consolidations and sales of assets; transactions with subsidiaries; and liens. In addition, the Company must comply with certain quarterly restrictions regarding net worth, working capital, ratios of total liabilities to net worth and interest coverage and current ratio requirements.

Operations used net cash of \$7.7 million in fiscal 1999, provided net cash of \$15.5 million in fiscal 1998 and used net cash of \$5.1 million in fiscal 1997. The cash used in fiscal 1999 resulted primarily from inventories increasing at a faster rate than accounts payable compared to the prior year, offset, in part, by an increase in net income and an increase in accrued expenses (mainly incremental costs relating to new stores). The generation of cash in fiscal 1998 resulted primarily from an increase in accrued expenses (mainly due to higher incentive accruals), an increase in net income and, to a lesser extent, an increase in income taxes currently payable compared to fiscal 1997 due to timing of payments, offset, in part, by inventories increasing at a slower rate than accounts payable compared to the prior year.

Cash used in investing activities of \$19.6 million, \$14.3 million and \$7.5 million for fiscal 1999, 1998 and 1997, respectively, resulted primarily from capital expenditures for new, relocated and remodeled stores and for new merchandise and warehouse management systems (in 1998 and, to a lesser extent, in 1999), partially offset by proceeds from the sale of certain properties (primarily land and buildings).

Financing activities in fiscal 1999 provided \$16.1 million in cash which represented a \$7.6 million increase over the \$8.5 million in cash provided in fiscal 1998. This increase resulted primarily from borrowings of \$19.1 million under the Credit Agreement in fiscal 1999 compared to net repayments of approximately \$4.4 million under the Credit Agreement and borrowings of \$15.0 million under the Loan Agreement in fiscal 1998 offset, in part, by scheduled repayments under the Term Note, long-term debt and capital lease obligations totaling approximately \$3.5 million in fiscal 1999 versus approximately \$2.4 million in fiscal 1998. Financing activities in fiscal 1998 provided \$8.5 million in cash which represented a \$.3 million increase over the \$8.2 million in cash provided in fiscal 1997. This increase resulted primarily from borrowings of \$15.0 million under the Loan Agreement in fiscal 1998 compared to net borrowings of approximately \$11.4 million under the Credit Agreement in fiscal 1997, offset, in part, by net repayments of approximately \$4.4 million under the Credit Agreement and scheduled repayments of long-term debt and capital lease obligations totaling approximately 2.4 million in 1998 versus approximately \$1.7 million in fiscal 1997.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The Company's capital additions were \$20.4 million, \$14.5 million and \$9.1 million in fiscal 1999, 1998 and 1997, respectively. The majority of the capital additions were for store fixtures, equipment and leasehold improvements for new stores and remodeling of existing stores as well as the new merchandise and warehouse management system. The Company expects that its capital expenditures for fiscal 2000 will be approximately \$25.0 million to \$27.0 million, consisting primarily of leasehold improvements and, to a lesser extent, fixtures and equipment, assuming successful implementation of its growth strategy through approximately 40 to 45 planned new store openings. However, the Company cannot predict with certainty the amount of such expenditures because such new stores may be constructed, leased or acquired from others. The estimated cash required to open a new store is approximately \$.8 to \$1.0 million, the majority of which is for the initial acquisition of inventory and capital expenditures, principally leasehold improvements, fixtures and equipment, and the balance of which is for store opening expenses.

During fiscal 1998, the Company made substantial progress in its planned installation of a new merchandise and warehouse management system. In February 1999, the Company concluded the remaining conversion effort and completed the system installation, thus achieving full Year 2000 compliance for its remaining processing systems. This installation was the one remaining significant requirement for the Company to achieve Year 2000 compliance prior to the need to execute transactions with Year 2000 implications (the processing concern created by the change in the century and the traditional two-digit year fields embedded in most data processing systems is commonly referred to as the "Year 2000" issue). The total cost for the full installation of this system was approximately \$10.0 million. Since the completion of the implementation and subsequent to the end of fiscal 1999, the Company has not experienced any difficulties or observed any malfunctions in its systems relating to a Year 2000 issue.

The Company believes that its cash flow from operations, borrowings available under the Credit Agreement and short-term trade credit will be sufficient to fund the Company's operations and its growth and expansion plans over the next several years.

Management does not believe its operations have been materially affected by inflation. The Company has been successful, in many cases, in reducing or mitigating the effects of inflation principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases and selective buying from the most competitive vendors without sacrificing quality.

**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors and  
Stockholders of Tractor Supply Company

In our opinion, the accompanying balance sheets and the related statements of income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Tractor Supply Company at January 1, 2000 and December 26, 1998, and the results of its operations and its cash flows for each of the three years in the period ended January 1, 2000, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*/s/ PRICEWATERHOUSECOOPERS LLP*

*[LOGO]*

*Nashville, Tennessee  
January 24, 2000*

**BALANCE SHEETS**  
(In thousands, except share amounts)

|                                                                                                                                                        | JANUARY 1,<br>2000 | DECEMBER 26,<br>1998 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------|
| <hr/>                                                                                                                                                  |                    |                      |
| ASSETS                                                                                                                                                 |                    |                      |
| Current assets:                                                                                                                                        |                    |                      |
| Cash and cash equivalents                                                                                                                              | \$ 6,991           | \$ 18,201            |
| Accounts receivable, net                                                                                                                               | 6,765              | 5,578                |
| Inventories                                                                                                                                            | 207,325            | 171,749              |
| Prepaid expenses                                                                                                                                       | 4,845              | 6,301                |
|                                                                                                                                                        | <hr/>              |                      |
| Total current assets                                                                                                                                   | 225,926            | 201,829              |
|                                                                                                                                                        | <hr/>              |                      |
| Land                                                                                                                                                   | 6,449              | 6,871                |
| Buildings and improvements                                                                                                                             | 58,135             | 49,437               |
| Machinery and equipment                                                                                                                                | 39,885             | 23,121               |
| Construction in progress                                                                                                                               | 4,514              | 8,818                |
|                                                                                                                                                        | <hr/>              |                      |
|                                                                                                                                                        | 108,983            | 88,247               |
| Accumulated depreciation and amortization                                                                                                              | (35,270)           | (28,339)             |
|                                                                                                                                                        | <hr/>              |                      |
| Property and equipment, net                                                                                                                            | 73,713             | 59,908               |
|                                                                                                                                                        | <hr/>              |                      |
| Deferred income taxes                                                                                                                                  | 999                | 1,426                |
| Other assets                                                                                                                                           | 1,992              | 1,486                |
|                                                                                                                                                        | <hr/>              |                      |
| Total assets                                                                                                                                           | \$ 302,630         | \$ 264,649           |
|                                                                                                                                                        | <hr/>              |                      |
| LIABILITIES AND STOCKHOLDERS' EQUITY                                                                                                                   |                    |                      |
| Current liabilities:                                                                                                                                   |                    |                      |
| Accounts payable                                                                                                                                       | \$ 59,764          | \$ 60,900            |
| Accrued expenses                                                                                                                                       | 34,037             | 29,610               |
| Current maturities of long-term debt                                                                                                                   | 3,048              | 3,138                |
| Current portion of capital lease obligations                                                                                                           | 279                | 553                  |
| Income taxes currently payable                                                                                                                         | 4,135              | 4,134                |
| Deferred income taxes                                                                                                                                  | 7,357              | 7,964                |
|                                                                                                                                                        | <hr/>              |                      |
| Total current liabilities                                                                                                                              | 108,620            | 106,299              |
|                                                                                                                                                        | <hr/>              |                      |
| Revolving credit loan                                                                                                                                  | 38,126             | 19,000               |
| Term loan                                                                                                                                              | 9,821              | 11,786               |
| Other long-term debt                                                                                                                                   | 3,456              | 4,361                |
| Capital lease obligations                                                                                                                              | 3,280              | 1,985                |
| Other long-term liabilities                                                                                                                            | 487                | 527                  |
| Excess of fair value of assets acquired over cost less accumulated<br>amortization of \$3,055 and \$2,875, respectively                                | 535                | 715                  |
| Commitments (Note 5)                                                                                                                                   |                    |                      |
| Stockholders' equity:                                                                                                                                  |                    |                      |
| Common stock, 100,000,000 shares authorized; \$.008 par value; 8,769,106 and<br>8,748,105 shares issued and outstanding in 1999 and 1998, respectively | 70                 | 70                   |
| Additional paid-in capital                                                                                                                             | 42,668             | 42,213               |
| Retained earnings                                                                                                                                      | 95,567             | 77,693               |
|                                                                                                                                                        | <hr/>              |                      |
| Total stockholders' equity                                                                                                                             | 138,305            | 119,976              |
|                                                                                                                                                        | <hr/>              |                      |
| Total liabilities and stockholders' equity                                                                                                             | \$ 302,630         | \$ 264,649           |
|                                                                                                                                                        | <hr/>              |                      |

The accompanying notes are an integral part of this statement.

**STATEMENTS OF INCOME**  
(in thousands, except per share amounts)

|                                              | FOR THE FISCAL YEAR ENDED |                      |                      |
|----------------------------------------------|---------------------------|----------------------|----------------------|
|                                              | JANUARY 1,<br>2000        | DECEMBER 26,<br>1998 | DECEMBER 27,<br>1997 |
| Net sales                                    | \$688,082                 | \$600,677            | \$509,052            |
| Cost of merchandise sold                     | 506,831                   | 446,039              | 377,510              |
| Gross margin                                 | 181,251                   | 154,638              | 131,542              |
| Selling, general and administrative expenses | 139,725                   | 120,734              | 104,661              |
| Depreciation and amortization                | 7,311                     | 5,342                | 4,509                |
| Income from operations                       | 34,215                    | 28,562               | 22,372               |
| Interest expense, net                        | 4,104                     | 3,270                | 2,439                |
| Income before income taxes                   | 30,111                    | 25,292               | 19,933               |
| Income tax provision                         | 12,237                    | 10,492               | 8,172                |
| Net income                                   | \$ 17,874                 | \$ 14,800            | \$ 11,761            |
| Net income per share - basic                 | \$ 2.04                   | \$ 1.69              | \$ 1.34              |
| Net income per share - assuming dilution     | \$ 2.02                   | \$ 1.68              | \$ 1.34              |

The accompanying notes are an integral part of this statement.

**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
(in thousands)

|                                                                                | COMMON<br>STOCK | ADDITIONAL<br>PAID-IN<br>CAPITAL | RETAINED<br>EARNINGS | TOTAL<br>STOCKHOLDERS'<br>EQUITY |
|--------------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|----------------------------------|
| Stockholders' equity at<br>December 28, 1996                                   | \$ 70           | \$41,685                         | \$ 51,211            | \$ 92,966                        |
| Preferred stock dividend                                                       |                 |                                  | (79)                 | (79)                             |
| Issuance of common stock under employee<br>stock purchase plan (13,218 shares) |                 | 241                              |                      | 241                              |
| Net income                                                                     |                 |                                  | 11,761               | 11,761                           |
| Stockholders' equity at<br>December 27, 1997                                   | 70              | 41,926                           | 62,893               | 104,889                          |
| Issuance of common stock under employee<br>stock purchase plan (16,887 shares) |                 | 287                              |                      | 287                              |
| Net income                                                                     |                 |                                  | 14,800               | 14,800                           |
| Stockholders' equity at<br>December 26, 1998                                   | 70              | 42,213                           | 77,693               | 119,976                          |
| Issuance of common stock under employee<br>stock purchase plan (13,752 shares) |                 | 298                              |                      | 298                              |
| Exercise of stock options (7,249 shares)                                       |                 | 157                              |                      | 157                              |
| Net income                                                                     |                 |                                  | 17,874               | 17,874                           |
| Stockholders' equity at<br>January 1, 2000                                     | \$ 70           | \$42,668                         | \$ 95,567            | \$ 138,305                       |

The accompanying notes are an integral part this statement.

**STATEMENTS OF CASH FLOWS**  
(in thousands)

|                                                                                             | FOR THE FISCAL YEAR ENDED |                      |                      |
|---------------------------------------------------------------------------------------------|---------------------------|----------------------|----------------------|
|                                                                                             | JANUARY 1,<br>2000        | DECEMBER 26,<br>1998 | DECEMBER 27,<br>1997 |
| Cash flows from operating activities:                                                       |                           |                      |                      |
| Net income                                                                                  | \$ 17,874                 | \$ 14,800            | \$ 11,761            |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |                      |                      |
| Depreciation and amortization                                                               | 7,311                     | 5,342                | 4,509                |
| Loss (gain) on disposition of property and equipment                                        | (104)                     | 1,353                | (23)                 |
| Deferred income taxes                                                                       | (180)                     | (1,816)              | (99)                 |
| Change in assets and liabilities:                                                           |                           |                      |                      |
| Accounts receivable                                                                         | (1,187)                   | (398)                | (326)                |
| Inventory                                                                                   | (35,576)                  | (20,000)             | (27,667)             |
| Prepaid expenses                                                                            | 1,456                     | (2,100)              | (2,555)              |
| Accounts payable                                                                            | (1,136)                   | 8,192                | 5,117                |
| Accrued expenses                                                                            | 4,427                     | 8,422                | 5,236                |
| Income taxes currently payable                                                              | 1                         | 1,824                | (551)                |
| Other                                                                                       | (605)                     | (131)                | (539)                |
| Net cash provided by (used in) operating activities                                         | (7,719)                   | 15,488               | (5,137)              |
| Cash flows from investing activities:                                                       |                           |                      |                      |
| Capital expenditures                                                                        | (20,368)                  | (14,505)             | (9,120)              |
| Proceeds from sale of property and equipment                                                | 816                       | 233                  | 1,636                |
| Net cash used in investing activities                                                       | (19,552)                  | (14,272)             | (7,484)              |
| Cash flows from financing activities:                                                       |                           |                      |                      |
| Net borrowings (repayment) under revolving credit loan                                      | 19,126                    | (4,419)              | 11,419               |
| Borrowings under term loan agreement                                                        | --                        | 15,000               | --                   |
| Repayment under term loan agreement                                                         | (1,965)                   | (893)                | --                   |
| Principal payments under capital lease obligations                                          | (560)                     | (731)                | (1,003)              |
| Repayment of long-term debt                                                                 | (995)                     | (736)                | (665)                |
| Net proceeds from sale of common stock                                                      | 455                       | 287                  | 241                  |
| Redemption of preferred stock                                                               | --                        | --                   | (1,763)              |
| Payment of preferred stock dividend                                                         | --                        | --                   | (79)                 |
| Net cash provided by financing activities                                                   | 16,061                    | 8,508                | 8,150                |
| Net increase (decrease) in cash                                                             | (11,210)                  | 9,724                | (4,471)              |
| Cash and cash equivalents at beginning of year                                              | 18,201                    | 8,477                | 12,948               |
| Cash and cash equivalents at end of year                                                    | \$ 6,991                  | \$ 18,201            | \$ 8,477             |
| =====                                                                                       |                           |                      |                      |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION (NOTE 1):                                 |                           |                      |                      |
| Cash paid during the year for:                                                              |                           |                      |                      |
| Interest                                                                                    | \$ 4,026                  | \$ 3,231             | \$ 2,583             |
| Income taxes                                                                                | 12,937                    | 10,310               | 8,643                |
| Non-cash investing and financing activities:                                                |                           |                      |                      |
| Capital lease-buildings                                                                     | 1,581                     | --                   | --                   |

The accompanying notes are an integral part of this statement.



## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

#### Nature of Business

Tractor Supply Company is a specialty retailer which supplies the daily farming and maintenance needs of its target customers: hobby, part-time and full-time farmers and ranchers, as well as rural customers, contractors and tradesmen. The Company, which was founded in 1938, operated 273 retail farm stores in 26 states as of January 1, 2000.

#### Fiscal Year

The Company's fiscal year ends on the Saturday closest to December 31. Fiscal year 1999 consists of 53 weeks, while fiscal years 1998 and 1997 consist of 52 weeks.

#### Management Estimates

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

#### Fair Value of Financial Instruments

The Company has cash and cash equivalents, short-term trade receivables and payables and long-term debt instruments, including capital leases. The carrying values of cash and cash equivalents, trade receivables and trade payables equal current fair value. The terms of the Company's revolving credit agreement include variable interest rates, which approximate current market rates. The terms of the Company's term loan agreement include a fixed interest rate, which approximates current market rates. The Company's fixed rate debt has an approximate current value of \$4.5 million, bearing interest at 10.32% which is above current rates available; however, the related debt agreement includes certain pre-payment penalties which make refinancing uneconomical (Notes 2, 3 and 4).

#### Inventories

Inventories, which consist primarily of farm maintenance and animal products, general maintenance products, lawn and garden products, light truck equipment and work clothing, are stated at cost, which is less than market value, with cost being determined on the last-in, first-out (LIFO) method. If the first-in, first-out (FIFO) method of accounting for inventory had been used, inventories would have been approximately \$4,680,000 and \$6,497,000 higher than reported at January 1, 2000 and December 26, 1998, respectively.

#### Net Income Per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 - Earnings per Share ("SFAS 128"). SFAS 128 requires companies with complex capital structures that have publicly held common stock or common stock equivalents to present both basic and diluted earning per share ("EPS") on the face of the income statement. Basic EPS is calculated as income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted EPS (previously referred to as fully diluted EPS) is calculated using the "if converted" method for convertible securities and the treasury stock method for options and warrants as prescribed by APB 15 (Note 8).

#### Excess of Fair Value of Assets Acquired Over Cost

On December 26, 1982, the Company began operations with the acquisition of certain assets and assumption of certain obligations. The unallocated excess of fair value of assets acquired over cost was approximately \$3,590,000 and is being amortized over 20 years on a straight-line basis.

## NOTES TO FINANCIAL STATEMENTS

### Property and Equipment

The Company owns the land and buildings of 74 of its stores. Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Generally, buildings are depreciated over 31 years and machinery and equipment is depreciated over seven years.

### Revenue Recognition

The Company recognizes revenue at the time of customer purchase.

### Income Taxes

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

### Store Opening Costs

Costs incurred in connection with opening new stores are expensed as incurred.

### Advertising Costs

Advertising costs primarily consist of expenses incurred in connection with newspaper circulars and, to a lesser extent, radio and newspaper advertisements and other promotions. Expenses incurred are charged to operations at the time the related advertising first takes place. Advertising expense for fiscal 1999, 1998 and 1997 was approximately \$8,806,000, \$9,239,000, and, \$8,771,000, respectively.

### Stock-based Compensation Plans

The Company applies APB Opinion 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its fixed stock option plan and its stock purchase plan (Note 11).

### Cash Flows

The Company considers temporary cash investments, with an original maturity of three months or less, to be cash equivalents.

### NOTE 2 - REVOLVING CREDIT AGREEMENT:

In July 1996, the Company entered into an amendment (the "First Amendment") to its existing revolving credit agreement with The First National Bank of Boston, as agent and for itself (the "Agent") and First American National Bank (the "Credit Agreement"), whereby the Company (i) increased the maximum total commitments available under the Credit Agreement from \$30 million to \$45 million and (ii) extended the expiration date of the Credit Agreement from August 31, 1997 to August 31, 1999 (the date upon which any remaining borrowings must be repaid). There were no changes to any of the other material terms and conditions of the Credit Agreement as a result of the First Amendment.

In March 1998, the Company entered into an amendment (the "Second Amendment") to its Credit Agreement with BankBoston, N.A. (successor to The First National Bank of Boston), a national banking association, as agent, and for itself, in its capacity as a lender thereunder, First American National Bank, a national banking association, and SunTrust Bank Nashville, N.A. ("SunTrust"), a national banking association, whereby the Company (i) increased the maximum total commitments available under the Credit Agreement from \$45 million to \$60 million and (ii) extended the expiration date of the Credit Agreement from August 31, 1999 to August 31, 2002 (the date upon which any remaining borrowings must be repaid). There were no changes to any of the other material terms and conditions of the Credit Agreement as a result of the Second Amendment, provided, however, that the financial covenants must be tested quarterly as of the end of each fiscal quarter, based on a rolling four-quarters basis, rather than at the end of each fiscal year.

## NOTES TO FINANCIAL STATEMENTS

In November 1999, the Company entered into an amendment (the "Third Amendment") to its Credit Agreement with SunTrust (replaced Bank Boston, N.A. as agent), as agent, and for itself, in its capacity as a lender thereunder, AmSouth Bank (successor to First American National Bank), a national banking association, and Bank of America, a national banking association, whereby the Company (i) increased the maximum total commitments available under the Credit Agreement from \$60 million to \$75 million. There were no changes to any of the other material terms and conditions of the Credit Agreement as a result of the Third Amendment.

All borrowings under the Credit Agreement bear interest, at the Company's option, at either the base rate of the Agent (8.50% at January 1, 2000) plus .25% per annum or the LIBOR rate (5.82% at January 1, 2000) plus .75% per annum provided, however, that upon the occurrence of certain events, the interest rate increases to the base rate of the Agent plus .50% per annum or the LIBOR rate plus 1.0% per annum. The Company is also required to pay, quarterly in arrears, a commitment fee of .25% per annum on the average daily unused portion of the credit line. There are no compensating balance requirements associated with the Credit Agreement. The Credit Agreement is unsecured.

The Credit Agreement contains certain restrictions regarding additional indebtedness; employee loans; business operations; guarantees; investments; mergers, consolidations and sales of assets; transactions with subsidiaries or affiliates; and liens. In addition, the Company must comply with certain quarterly restrictions (based on a rolling fourquarters basis) regarding net worth, working capital, ratios of total liabilities to net worth and interest coverage and current ratio requirements. The Company was in compliance with all covenants at January 1, 2000.

### NOTE 3 - TERM LOAN AGREEMENT:

In June 1998, the Company entered into a new loan agreement (the "Loan Agreement") and term note (the "Term Note") with SunTrust pursuant to which the Company borrowed \$15 million. The Term Note bears interest at the rate of 6.75% per annum until its maturity in June 2005. The Term Note requires monthly payments equal to \$178,572, plus accrued interest, through June 2005. There are no compensating balance requirements associated with the Loan Agreement. The Loan Agreement is unsecured. The Loan Agreement contains certain restrictions regarding additional indebtedness; employee loans; business operations; guarantees; investments; mergers, consolidations and sales of assets; transactions with subsidiaries; and liens. In addition, the Company must comply with certain quarterly restrictions regarding net worth, working capital, ratios of total liabilities to net worth and interest coverage and current ratio requirements. The Company was in compliance with all covenants at January 1, 2000.

### NOTE 4 - OTHER LONG-TERM DEBT:

Other long-term debt consists of the following (in thousands):

|                          | JANUARY 1,<br>2000 | DECEMBER 26,<br>1998 |
|--------------------------|--------------------|----------------------|
| Mortgage Notes           | \$ 4,361           | \$ 5,177             |
| Less: current maturities | (905)              | (816)                |
|                          | \$ 3,456           | \$ 4,361             |

In April 1988, the Company issued notes (the "Mortgage Notes") to Mutual Life Insurance Company of New York and MONY Life Insurance Company of America pursuant to a Note Agreement which was amended in April 1991, February 1992 and July 1993 (the "Mortgage Loan Agreement"). The Mortgage Notes bear interest at a minimum 10.32% rate until their maturity in January 2004. The Mortgage Notes require monthly payments, including interest, of approximately \$109,000 through January 2004.

# NOTES TO FINANCIAL STATEMENTS

The Mortgage Loan Agreement is secured by first mortgages on certain of the Company's existing properties. The Mortgage Loan Agreement contains certain restrictions regarding sales of assets, mergers, consolidations, investments, sales or discounting of receivables, operating leases and, unless the Company satisfies certain net income, indebtedness and tangible net worth tests, cash dividends on and redemptions of capital stock. In addition, the Company must comply with certain restrictions regarding tangible net worth, working capital, funded debt, ratios of indebtedness to capitalization, FIFO inventory to current debt, interest coverage, fixed charge coverage, earnings coverage and current ratio requirements. As a result of increased capital expenditures in 1999 (primarily for software installations and Y2K remediation efforts), the Company was not in compliance with the annual fixed charge coverage ratio at January 1, 2000. The Company has received a waiver through December 29, 2000. The Company was in compliance with all other restrictions at January 1, 2000.

The combined aggregate maturities of the Mortgage Notes are as follows (in thousands):

|      |        |
|------|--------|
| 2000 | \$ 905 |
| 2001 | 1,003  |
| 2002 | 1,112  |
| 2003 | 1,232  |
| 2004 | 109    |

## NOTE 5 - LEASES:

The Company leases office, warehouse/distribution and retail space, transportation equipment and other equipment under various noncancelable operating leases. The leases have varying terms and expire at various dates through October 2017. The store leases typically have initial terms of between 10 and 15 years, with one to three renewal periods of five years each, exercisable at the Company's option. Generally, most of the leases require the Company to pay taxes, insurance and maintenance costs.

Rent expense for all noncancelable operating leases for fiscal 1999, 1998 and 1997 was approximately \$37,041,000, \$32,421,000, and \$27,557,000, respectively.

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

|                                              | CAPITAL<br>LEASES | OPERATING<br>LEASES |
|----------------------------------------------|-------------------|---------------------|
| 2000                                         | \$ 630            | \$ 24,461           |
| 2001                                         | 630               | 23,904              |
| 2002                                         | 630               | 21,287              |
| 2003                                         | 628               | 20,241              |
| 2004                                         | 586               | 18,670              |
| Thereafter                                   | 4,405             | 103,445             |
| Total minimum lease payments                 | 7,509             | \$212,008           |
| Amount representing interest                 | (3,950)           | =====               |
| Present values of net minimum lease payments | 3,559             |                     |
| Less: current portion                        | (279)             |                     |
| Long-term capital lease obligations          | \$3,280           | =====               |

## NOTES TO FINANCIAL STATEMENTS

## NOTE 6 - INCOME TAXES:

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

|                       | 1999      | 1998      | 1997     |
|-----------------------|-----------|-----------|----------|
| -----                 |           |           |          |
| Current tax expense:  |           |           |          |
| Federal               | \$ 9,774  | \$ 10,111 | \$ 6,720 |
| State                 | 2,643     | 2,197     | 1,551    |
|                       | -----     | -----     | -----    |
| Total current         | 12,417    | 12,308    | 8,271    |
|                       | -----     | -----     | -----    |
| Deferred tax expense: |           |           |          |
| Federal               | (172)     | (1,671)   | (116)    |
| State                 | (8)       | (145)     | 17       |
|                       | -----     | -----     | -----    |
| Total deferred        | (180)     | (1,816)   | (99)     |
|                       | -----     | -----     | -----    |
| Total provision       | \$ 12,237 | \$ 10,492 | \$ 8,172 |
|                       | =====     | =====     | =====    |

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

|                                           | JANUARY 1,<br>2000 | DECEMBER 26,<br>1998 |
|-------------------------------------------|--------------------|----------------------|
| -----                                     |                    |                      |
| Current tax assets:                       |                    |                      |
| Inventory valuation                       | \$ 5,647           | \$ 4,367             |
| Other                                     | 2,081              | 2,509                |
|                                           | -----              | -----                |
|                                           | 7,728              | 6,876                |
|                                           | -----              | -----                |
| Current tax liabilities:                  |                    |                      |
| Inventory basis difference                | 14,230             | 14,186               |
| Other                                     | 855                | 654                  |
|                                           | -----              | -----                |
|                                           | 15,085             | 14,840               |
|                                           | -----              | -----                |
| Net current tax liabilities               | \$ 7,357           | \$ 7,964             |
|                                           | =====              | =====                |
| Non-current tax assets:                   |                    |                      |
| Capital lease obligation basis difference | \$ 1,338           | \$ 807               |
| Fixed assets basis difference             | 274                | 319                  |
| Other                                     | 1,907              | 1,629                |
|                                           | -----              | -----                |
|                                           | 3,519              | 2,755                |
|                                           | -----              | -----                |
| Non-current tax liabilities:              |                    |                      |
| Depreciation                              | 1,569              | 954                  |
| Capital lease assets basis difference     | 951                | 375                  |
|                                           | -----              | -----                |
|                                           | 2,520              | 1,329                |
|                                           | -----              | -----                |
| Net non-current tax assets                | \$ 999             | \$ 1,426             |
|                                           | =====              | =====                |

# NOTES TO FINANCIAL STATEMENTS

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

|                                                | 1999      | 1998      | 1997     |
|------------------------------------------------|-----------|-----------|----------|
| -----                                          | -----     | -----     | -----    |
| Tax provision at statutory rate                | \$ 10,539 | \$ 8,852  | \$ 6,977 |
| Tax effect of:                                 |           |           |          |
| State income taxes, net of federal tax benefit | 1,721     | 1,432     | 1,008    |
| Amortization of negative goodwill              | (63)      | (63)      | (63)     |
| Other                                          | 40        | 271       | 250      |
|                                                | -----     | -----     | -----    |
|                                                | \$ 12,237 | \$ 10,492 | \$ 8,172 |
|                                                | =====     | =====     | =====    |

A substantial portion of the current deferred tax liability of the Company relates to the tax treatment of certain inventory and other assets acquired by the Company in connection with an acquisition in 1982. Recent cases cast some doubt as to whether the Company's tax position with respect to such inventory and other assets would be sustained if challenged. If the Company were challenged on its tax position, no assurance can be given as to the outcome. However, the Company believes, based upon its understanding of the resolution of similar situations by others, that it has established adequate reserves and that, accordingly, resolution of this issue would not have a material adverse effect on its results of operations or financial position.

## NOTE 7 - CAPITAL STOCK:

The authorized capital stock of the Company consists of common stock and preferred stock. In April 1997, the stockholders of the Company approved an amendment to the Company's Restated Certificate of Incorporation, as amended, to increase the number of authorized shares of Common Stock from 9,500,000 shares to 100,000,000 shares. The Company is also authorized to issue 40,000 shares of Preferred Stock, with such designations, rights and preferences as may be determined from time to time by the Board of Directors.

In May 1991, in accordance with a Plan of Reorganization and Exchange Agreement, the Company reacquired 2,890,151 shares of common stock in exchange for 5,875 shares of Series B Preferred Stock (the "Preferred Stock") and cash. The Preferred Stock has a par value of \$1 per share and a stated value and liquidation preference of \$1,000 per share. Dividends on the Preferred Stock are cumulative and payable semi-annually on May 1st and November 1st at a rate of 8.0% per annum on the stated value of the outstanding shares, increasing to 10% on May 1, 1999, 11% on May 1, 2000, 12% on May 1, 2001 and 13% thereafter. On May 26, 1995, the Company repurchased 2,350 shares of the Series B Preferred Stock at a total repurchase price of approximately \$2,363,000 (including accrued dividends totaling approximately \$13,000). On May 24, 1996, the Company repurchased 1,762 shares of the Series B Preferred Stock at a total repurchase price of approximately \$1,771,000 (including accrued dividends totaling approximately \$9,000). On May 23, 1997, the Company repurchased the remaining 1,763 shares of the Series B Preferred Stock at a total repurchase price of approximately \$1,772,000 (including accrued dividends totaling approximately \$9,000).

## NOTES TO FINANCIAL STATEMENTS

## NOTE 8 - NET INCOME PER SHARE:

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

| 1999                            |          |        |                     |
|---------------------------------|----------|--------|---------------------|
|                                 | INCOME   | SHARES | PER SHARE<br>AMOUNT |
| Basic net income per share:     |          |        |                     |
| Net income                      | \$17,874 | 8,761  | \$2.04              |
| Stock options outstanding       |          | 75     | -----               |
|                                 |          |        |                     |
| Diluted net income per share    | \$17,874 | 8,836  | \$2.02              |
|                                 | =====    |        |                     |
| 1998                            |          |        |                     |
|                                 | INCOME   | SHARES | PER SHARE<br>AMOUNT |
| Basic net income per share:     |          |        |                     |
| Net income                      | \$14,800 | 8,742  | \$1.69              |
| Stock options outstanding       |          | 68     | -----               |
|                                 |          |        |                     |
| Diluted net income per share    | \$14,800 | 8,810  | \$1.68              |
|                                 | =====    |        |                     |
| 1997                            |          |        |                     |
|                                 | INCOME   | SHARES | PER SHARE<br>AMOUNT |
| Basic net income per share:     |          |        |                     |
| Net income                      | \$11,761 |        |                     |
| Less: preferred stock dividends | (57)     |        |                     |
|                                 |          |        |                     |
|                                 | \$11,704 | 8,725  | \$1.34              |
| Stock options outstanding       |          | --     | -----               |
| Diluted net income per share    | \$11,704 | 8,725  | \$1.34              |
|                                 | =====    |        |                     |

## NOTE 9 - RELATED PARTY TRANSACTIONS:

In 1986, the Company entered into capitalized sale-leaseback transactions with certain officers of the Company for seven of its stores. The Company sold, leased back and provided the financing for seven of its real properties at estimated fair values totaling \$2,575,000. The related gains arising from the sale of these properties have been deferred and are being amortized on a straight-line basis over the terms of the related leases. Properties under capital leases acquired through sale-leaseback transactions have been reduced by the related deferred gains on the properties and are classified with property and equipment. The leases have basic terms of 20 years with options to renew for two successive five-year terms. The Company has an option to purchase the leased properties after December 31, 1995. Rent payments under these leases were approximately \$425,000 in fiscal 1999, 1998 and 1997. All the officers have repaid their outstanding obligations under these notes to the Company. The balance of these capitalized lease obligations, included in total capital lease obligations at January 1, 2000, was \$1,396,000.

The Company leases its management headquarters from a partnership in which certain stockholders of the Company are general partners. The remaining lease term is ten years, with the Company having exercised both remaining five-year renewal options in fiscal 1996, with monthly rent set at \$35,000 and \$39,000 per month, respectively. Rent payments under this lease were \$420,000 in fiscal 1999 and \$417,000 in fiscal 1998 and 1997.

## NOTES TO FINANCIAL STATEMENTS

The Company leased one of its stores from a corporation in which certain executive officers and directors of the Company are the sole shareholders, directors and executive officers. The initial term of the lease is twenty years, commencing in September 1991 and ending in August 2011, subject to renewal at the option of the Company for two successive five-year terms. Monthly rent ranged from \$8,437 for the first five years to \$9,375 for the final five years of the initial term. The related land was leased by the lessor from the Company pursuant to a ground lease agreement dated July 1, 1994 providing for a fifty-year lease term, commencing in July 1991 and ending in June 2011 and annual rental payments that range from \$15,000 to \$24,300. In October 1996, the Board approved a proposed transaction to relocate this store to a larger facility. In June 1997, the Company (i) acquired the store building from the lessor for \$650,000, (ii) canceled the ground lease agreement with the lessor respecting said property, (iii) sold the store (building and land) to an unrelated real estate developer for \$750,000 (which is approximately \$650,000 below the appraised value of said property), and (iv) leased a new larger store from the same developer (said new store having been built by the developer on a nearby site owned by them of approximately four acres and in accordance with the Company's specifications), pursuant to which the Company received a discounted rent (approximately \$6.30 per square foot initially compared to the market rate of approximately \$8.60 per square foot or approximately \$750,000 over the fifteen year initial lease) in consideration for the reduced purchase price on the store building and land.

The Company also leases one store location from an S corporation owned by certain officers of the Company. Rent payments under this lease were approximately \$101,000 in each of the fiscal years 1999, 1998 and 1997.

### **NOTE 10 - RETIREMENT BENEFIT PLAN:**

The Company has a defined contribution benefit plan, the Tractor Supply Company Restated 401(k) Retirement Plan (the "Plan"), which provides retirement and other benefits for the Company's employees. Employees become eligible for participation upon completion of 12 consecutive months of employment and 1,000 hours or more of service. The Company matches 100% of the first 3% of employee's elective contributions plus an additional 50% of any additional elective contribution (limited to 5% of the employee's total compensation). Company contributions to the plan during fiscal 1999, 1998 and 1997 were approximately \$969,000, \$822,000 and \$733,000, respectively.

### **NOTE 11 - STOCK-BASED COMPENSATION PLANS:**

#### **Fixed Stock Option Plan**

The Company has a stock option plan for officers, directors (including non-employee directors) and key employees which reserves 1,000,000 shares of common stock for future issuance under the plan. According to the terms of the Plan, the per share exercise price of options granted shall not be less than the fair market value of the stock on the date of grant and such options will expire no later than ten years from the date of grant. In the case of a stockholder owning more than 10% of the outstanding voting stock of the Company, the exercise price of an incentive stock option may not be less than 110% of the fair market value of the stock on the date of grant and such options will expire no later than five years from the date of grant. Also, the aggregate fair market value of the stock with respect to which incentive stock options are exercisable on a tax deferred basis for the first time by an individual in any calendar year may not exceed \$100,000. Options granted generally vest one-third each year beginning on the third anniversary date of the grant and expire after ten years, provided, however, that options granted to non-employee directors vest one-third each year beginning on the first anniversary of the grant.



## NOTES TO FINANCIAL STATEMENTS

Plan activity is summarized as follows:

|                                  | NUMBER OF<br>SHARES | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE |
|----------------------------------|---------------------|------------------------------------------|
| -----                            | -----               | -----                                    |
| Outstanding at December 28, 1996 | 185,000             | \$21.77                                  |
| Granted                          | 350,500             | \$18.44                                  |
| Canceled                         | (35,500)            | \$21.29                                  |
| -----                            | -----               | -----                                    |
| Outstanding at December 27, 1997 | 500,000             | \$19.47                                  |
|                                  |                     |                                          |
| Granted                          | 48,000              | \$16.67                                  |
| Canceled                         | (33,250)            | \$19.49                                  |
| -----                            | -----               | -----                                    |
| Outstanding at December 26, 1998 | 514,750             | \$19.21                                  |
|                                  |                     |                                          |
| Exercised                        | (7,249)             | \$21.66                                  |
| Granted                          | 218,000             | \$25.58                                  |
| Canceled                         | (124,001)           | \$20.91                                  |
| -----                            | -----               | -----                                    |
| Outstanding at January 1, 2000   | 601,500             | \$21.14                                  |
| =====                            | =====               | =====                                    |

The following table summarizes information concerning currently outstanding and exercisable options:

|       |           |         | OPTIONS OUTSTANDING |      |          |             |
|-------|-----------|---------|---------------------|------|----------|-------------|
|       |           |         | -----               |      |          |             |
|       |           |         | WEIGHTED            |      |          |             |
|       |           |         | AVERAGE             |      |          |             |
|       |           |         | REMAINING           |      |          |             |
|       |           |         | CONTRACTUAL         |      | WEIGHTED |             |
|       |           |         | LIFE                |      | AVERAGE  |             |
|       |           |         |                     |      | EXERCISE |             |
| YEAR  | RANGE OF  | PRICES  | NUMBER              |      |          | OPTIONS     |
|       | EXERCISE  |         | OUTSTANDING         |      | PRICE    | EXERCISABLE |
| ----- |           |         |                     |      |          |             |
| 1994  | \$21.50 - | \$27.00 | 15,000              | 4.18 | \$21.87  | 15,000      |
| 1995  | \$21.31 - | \$22.13 | 24,500              | 5.09 | \$22.08  | 16,669      |
| 1996  | \$21.38 - | \$25.13 | 66,000              | 6.10 | \$21.83  | 22,667      |
| 1997  | \$17.75 - | \$20.00 | 261,500             | 7.50 | \$18.45  | 6,030       |
| 1998  | \$14.44 - | \$24.31 | 44,000              | 8.07 | \$16.19  | 660         |
| 1999  | \$18.56 - | \$26.75 | 190,500             | 9.08 | \$25.54  | 0           |
|       |           |         | -----               |      |          | -----       |
|       |           |         | 601,500             |      |          | 61,026      |
|       |           |         | =====               |      |          | =====       |

## NOTES TO FINANCIAL STATEMENTS

Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed by FASB Statement No. 123, the Company's proforma net income and net income per share, for fiscal 1999, 1998 and 1997, would have been as follows (in thousands, except per share amounts):

|                                |             | 1999     | 1998     | 1997     |
|--------------------------------|-------------|----------|----------|----------|
| Net income                     | As reported | \$17,874 | \$14,800 | \$11,761 |
|                                | Proforma    | \$17,179 | \$14,271 | \$11,437 |
| Net income per share - basic   | As reported | \$ 2.04  | \$ 1.69  | \$ 1.34  |
|                                | Proforma    | \$ 1.96  | \$ 1.63  | \$ 1.30  |
| Net income per share - diluted | As reported | \$ 2.02  | \$ 1.68  | \$ 1.34  |
|                                | Proforma    | \$ 1.94  | \$ 1.62  | \$ 1.30  |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions.

|                               | 1999    | 1998   | 1997   |
|-------------------------------|---------|--------|--------|
| Expected volatility           | 37.8%   | 33.3%  | 30.8%  |
| Risk-free interest rate       | 6.5%    | 6.0%   | 6.5%   |
| Average expected life (years) | 7.5     | 9.14   | 7.25   |
| Dividend yield                | 0%      | 0%     | 0%     |
| Weighted average fair value   | \$12.95 | \$9.26 | \$8.97 |

### EMPLOYEE STOCK PURCHASE PLAN

In July 1996, the Company adopted the 1996 Associate Stock Purchase Plan (the "ASPP") to allow eligible employees of the Company the opportunity to purchase, through payroll deductions, shares of common stock of the Company at a 15% discount. In August 1996, the Company filed a registration statement with the Securities and Exchange Commission covering the shares of common stock to be sold under the ASPP. The ASPP was approved by the Company's stockholders in April 1997, authorizing the sale of up to 1,000,000 shares of common stock under the ASPP. Pursuant to the terms of the ASPP, the Company issued 13,752, 16,887 and 13,218 shares of common stock in fiscal 1999, 1998 and 1997, respectively.

**DIRECTORS AND OFFICERS****DIRECTORS**

Joseph H. Scarlett, Jr.  
Chairman of the Board,  
President and Chief  
Executive Officer  
Tractor Supply Company

Thomas O. Flood  
Retired Senior Vice President  
Tractor Supply Company

Joseph D. Maxwell  
Retired Vice President  
Tractor Supply Company

S.P. Braud (1)\*(2)\*(3)  
Retired Chief Financial Officer  
Service Merchandise Company, Inc.  
and President and Director  
Braud Design/Build, Inc.

Joseph M. Rodgers (1) (2) (3)  
Chairman of the Board  
The JMR Group, an investment firm,  
and former U.S.  
Ambassador to France

Gerard E. Jones (1) (2) (3)\*  
Partner  
Richards & O'Neil, LLP

Sam K. Reed (1) (2)  
Chief Executive Officer  
Keebler Foods Company

(1) Audit Committee Member

(2) Compensation Committee Member

(3) Nominating Committee Member (\*) Committee Chairman

**OFFICERS**

Joseph H. Scarlett, Jr.  
Chairman of the Board,  
President and Chief  
Executive Officer

Gerald W. Brase  
Senior Vice President-  
Merchandising and Marketing

Michael E. Brown  
Senior Vice President-  
Store Operations

Calvin B. Massmann  
Senior Vice President-  
Chief Financial Officer  
and Treasurer

John W. Atkins  
Vice President-Information  
Technology

Reynolds H. Becker  
Vice President-  
Merchandise Manager for  
Consumer Products

Blake A. Fohl  
Vice President-Marketing

Mark D. Gillman  
Vice President-Operations  
(Region III)

Lawrence Goldberg  
Vice President-Logistics

Leo H. Haberer  
Vice President-Real Estate

Stephen E. Hull  
Vice President-Real Estate

Gary M. Magoni  
Vice President-Operations  
(Region I)

Stanley L. Ruta  
Vice President-Operations  
(Region II)

Daisy L. Vanderlinde  
Vice President-Human Resources

**CORPORATE INFORMATION****STORE SUPPORT CENTER**

Tractor Supply Company  
320 Plus Park Boulevard  
Nashville, Tennessee 37217  
(615) 366-4600

**TRANSFER AGENT AND REGISTRAR**

BankBoston, N.A.  
c/o Equiserve  
P.O. Box 8040  
Boston, Massachusetts 02266-8040  
(800) 730-6001

**INDEPENDENT ACCOUNTANTS**

PricewaterhouseCoopers LLP  
4400 Harding Road  
Nashville, Tennessee 37205

**STOCK EXCHANGE LISTING**

The Nasdaq National Market  
Ticker Symbol: TSCO

**WORLD WIDE WEB**

[www.tractorsupplyco.com](http://www.tractorsupplyco.com)

**ANNUAL MEETING**

The Annual Meeting of Stockholders will be held at 10:00 a.m., April 27, 2000 at the Company's Store Support Center, 320 Plus Park Boulevard, Nashville, Tennessee 37217

**NUMBER OF STOCKHOLDERS**

As of January 31, 2000 there were approximately 82 stockholders of record. This number excludes individual stockholders holding stock under nominee security position listings.

**FORM 10-K**

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be sent to any stockholder upon written request to the Company's investor relations firm:

Corporate Communications, Inc.  
523 Third Avenue South  
Nashville, Tennessee 37210  
(615) 254-3376

**QUARTERLY STOCK PRICE RANGE**

|                | HIGH      | LOW        |
|----------------|-----------|------------|
| FISCAL 1999:   |           |            |
| First Quarter  | \$29 1/4  | \$21       |
| Second Quarter | \$29 3/4  | \$25       |
| Third Quarter  | \$27 5/16 | \$17 3/4   |
| Fourth Quarter | \$20 7/8  | \$13 13/16 |
| FISCAL 1998:   |           |            |
| First Quarter  | \$23 1/4  | \$13 3/4   |
| Second Quarter | \$26 1/2  | \$20 5/8   |
| Third Quarter  | \$26      | \$18       |
| Fourth Quarter | \$27      | \$18 1/2   |

**SATISFACTION  
GUARANTEED**

**ALL ASSOCIATES HAVE THE  
AUTHORITY TO  
"DO WHATEVER IT TAKES"**

**[TRACTOR SUPPLY CO. LOGO]**

Tractor Supply Company  
320 Plus Park Boulevard  
Nashville, Tennessee  
(615) 366-4600

## EXHIBIT 23.1

### CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-10699) of Tractor Supply Company of our report dated January 24, 2000 relating to the financial statements, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K.

*/s/ PricewaterhouseCoopers LLP  
Nashville, Tennessee  
March 24, 2000*

## EXHIBIT 23.2

### CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-35317) of our report dated January 24, 2000 relating to the financial statements, which appears in the 1999 Annual Report to Stockholders, which is incorporated by reference in Tractor Supply Company's Annual Report on Form 10-K for the year ended January 1, 2000.

*/s/ PricewaterhouseCoopers LLP  
Nashville, Tennessee*

*March 24, 2000*



**EXHIBIT 24.1**

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Calvin B. Massmann, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all Securities and Exchange Commission Form 10-K, and any and all amendments thereto, and to file the same and other documents in connection therewith with the Securities and Exchange Commission and the National Association of Securities Dealers, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his respective substitute, may lawfully do or cause to be done, or have done or caused to be done prior to this date, by virtue hereof.

*Dated: March 10, 2000*

*/s/ Joseph H. Scarlett, Jr.*

-----  
*Joseph H. Scarlett, Jr.*

**EXHIBIT 24.2**

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Calvin B. Massmann, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all Securities and Exchange Commission Form 10-K, and any and all amendments thereto, and to file the same and other documents in connection therewith with the Securities and Exchange Commission and the National Association of Securities Dealers, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his respective substitute, may lawfully do or cause to be done, or have done or caused to be done prior to this date, by virtue hereof.

*Dated: March 10, 2000*

*/s/ Thomas O. Flood*

-----  
*Thomas O. Flood*

**EXHIBIT 24.3**

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Calvin B. Massmann, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all Securities and Exchange Commission Form 10-K, and any and all amendments thereto, and to file the same and other documents in connection therewith with the Securities and Exchange Commission and the National Association of Securities Dealers, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his respective substitute, may lawfully do or cause to be done, or have done or caused to be done prior to this date, by virtue hereof.

*Dated: March 4, 2000*

*/s/ Joseph D. Maxwell*

-----  
*Joseph D. Maxwell*

**EXHIBIT 24.4**

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Calvin B. Massmann, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all Securities and Exchange Commission Form 10-K, and any and all amendments thereto, and to file the same and other documents in connection therewith with the Securities and Exchange Commission and the National Association of Securities Dealers, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his respective substitute, may lawfully do or cause to be done, or have done or caused to be done prior to this date, by virtue hereof.

*Dated: March 10, 2000*

*/s/ S.P. Braud*

-----  
*S.P. Braud*

**EXHIBIT 24.5**

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Calvin B. Massmann, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all Securities and Exchange Commission Form 10-K, and any and all amendments thereto, and to file the same and other documents in connection therewith with the Securities and Exchange Commission and the National Association of Securities Dealers, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his respective substitute, may lawfully do or cause to be done, or have done or caused to be done prior to this date, by virtue hereof.

*Dated: March 10, 2000*

*/s/ Joseph M. Rodgers*

-----  
*Joseph M. Rodgers*

**EXHIBIT 24.6**

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Calvin B. Massmann, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all Securities and Exchange Commission Form 10-K, and any and all amendments thereto, and to file the same and other documents in connection therewith with the Securities and Exchange Commission and the National Association of Securities Dealers, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his respective substitute, may lawfully do or cause to be done, or have done or caused to be done prior to this date, by virtue hereof.

*Dated: March 6, 2000*

*/s/ Gerard E. Jones*

-----  
*Gerard E. Jones*

**EXHIBIT 24.7**

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Calvin B. Massmann, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign Tractor Supply Company's 1999 Securities and Exchange Commission Form 10-K, and any and all amendments thereto, and to file the same and other documents in connection therewith with the Securities and Exchange Commission and the National Association of Securities Dealers, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his respective substitute, may lawfully do or cause to be done, or have done or caused to be done prior to this date, by virtue hereof.

*Dated: March 9, 2000*

*/s/ Sam K. Reed*

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*Sam K. Reed*

**ARTICLE 5**

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF TRACTOR SUPPLY COMPANY FOR THE YEAR ENDED JANUARY 1, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

| PERIOD TYPE                | YEAR        |
|----------------------------|-------------|
| FISCAL YEAR END            | JAN 01 2000 |
| PERIOD START               | DEC 27 1998 |
| PERIOD END                 | JAN 01 2000 |
| CASH                       | 6,991       |
| SECURITIES                 | 0           |
| RECEIVABLES                | 6,865       |
| ALLOWANCES                 | 0           |
| INVENTORY                  | 207,325     |
| CURRENT ASSETS             | 225,926     |
| PP&E                       | 108,983     |
| DEPRECIATION               | 35,270      |
| TOTAL ASSETS               | 302,630     |
| CURRENT LIABILITIES        | 108,620     |
| BONDS                      | 54,683      |
| PREFERRED MANDATORY        | 0           |
| PREFERRED                  | 0           |
| COMMON                     | 70          |
| OTHER SE                   | 138,235     |
| TOTAL LIABILITY AND EQUITY | 302,630     |
| SALES                      | 688,082     |
| TOTAL REVENUES             | 688,082     |
| CGS                        | 506,831     |
| TOTAL COSTS                | 506,831     |
| OTHER EXPENSES             | 147,036     |
| LOSS PROVISION             | 0           |
| INTEREST EXPENSE           | 4,104       |
| INCOME PRETAX              | 30,111      |
| INCOME TAX                 | 12,237      |
| INCOME CONTINUING          | 17,874      |
| DISCONTINUED               | 0           |
| EXTRAORDINARY              | 0           |
| CHANGES                    | 0           |
| NET INCOME                 | 17,874      |
| EPS BASIC                  | 2.04        |
| EPS DILUTED                | 2.02        |

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# TRACTOR SUPPLY CO.®

ANNUAL REPORT 2001



**OUR SALES TEAM:  
A FARMER, AN EQUINE  
ENTHUSIAST, AND A WELDER**

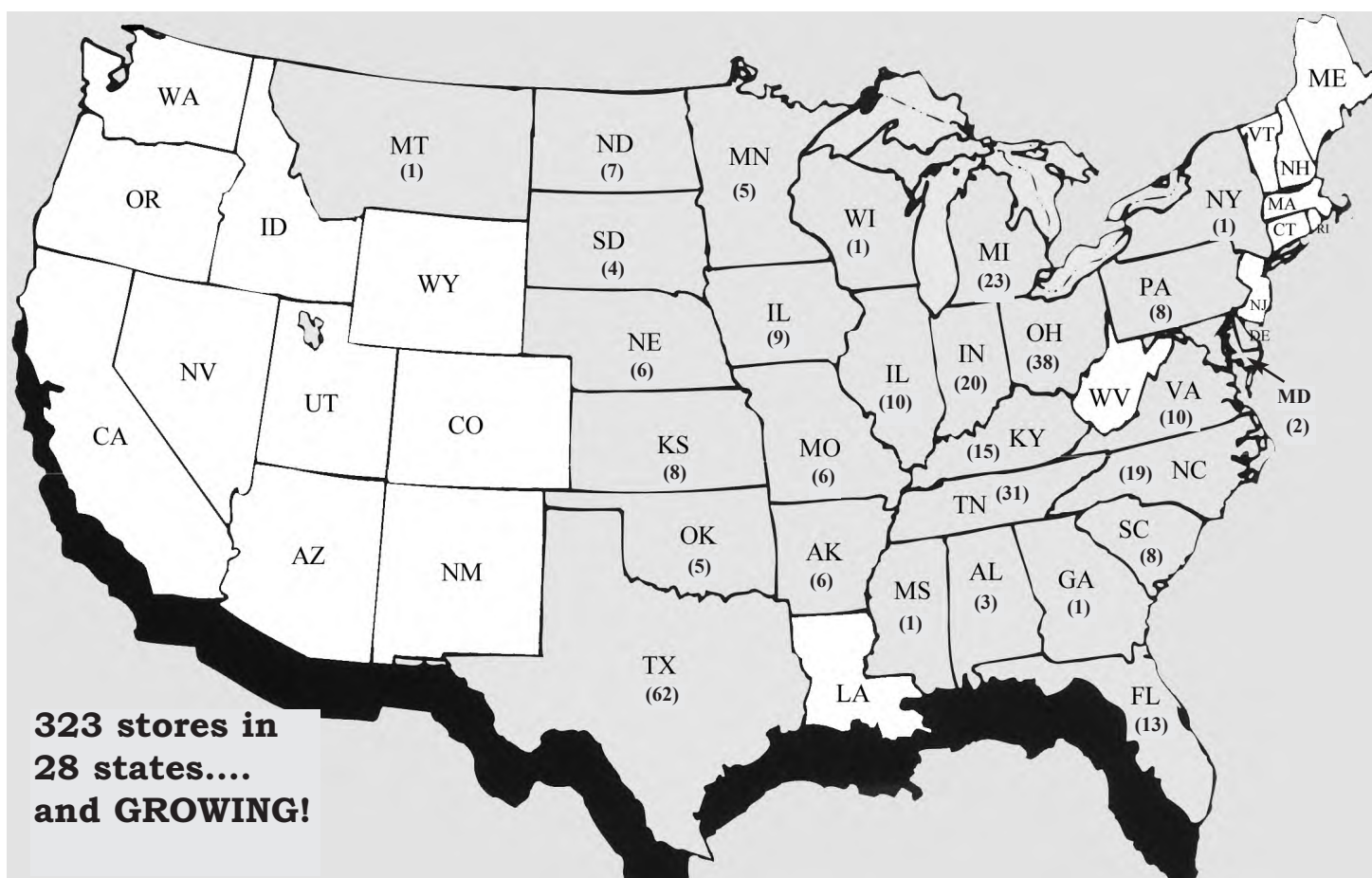


# THIS IS TRACTOR SUPPLY COMPANY

Tractor Supply Company began as a tractor parts mail-order catalog business in Chicago in 1938 and has grown to be the largest operator of retail farm and ranch stores in the United States. Stores are located in the outlying towns of major metropolitan markets and in rural communities. Tractor Supply operates 323 stores in 28 states focusing on supplying products for the lifestyle needs of hobby and part-time farmers and ranchers. The Company also serves the maintenance needs of suburban customers, contractors and tradesmen.

Over the past six decades, many aspects of our business have changed including the size of our stores and the merchandise assortment. But one thing has not changed -- our commitment to our customers. Superior customer service is the key to sales success, profit growth and store growth. And the most important component in providing superior customer service -- outstanding team members with great attitudes!

Our number one asset at Tractor Supply is our employees -- from our store teams, to our support personnel, to our leadership --everyone works hard to provide our customers with a great shopping experience. After all, this attitude is what has made us the largest farm and ranch store chain in America!



## Our Mission

*To work hard, have fun and make money by providing legendary service and great products at everyday low prices.*



# TRACTOR<sup>®</sup> SUPPLY CO

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# TO OUR SHAREHOLDERS

## Dear Shareholders:

### *Our Business----*

Tractor Supply dominates a special and unique niche in the retail marketplace. We focus on the rural lifestyle with particular emphasis on customers who describe themselves as recreational farmers and ranchers. Our customers value the outdoors, family independence and self-reliance and, like the rest of us, demand good selection, great value and solid customer service, which is exactly what they find at our stores.

The Tractor Supply merchandise assortment is geared directly to the lifestyle needs of our customers. The products found at Tractor Supply stores can seldom be found elsewhere under one roof. We win with our customers by offering a broad selection of products selected specifically for their needs.

The unique merchandise selection at Tractor Supply is a key advantage; however the major point of differentiation is the shopping experience -- handy locations, easy access in and out, superior product knowledge, everyday low prices and quick checkout. Knowledgeable and enthusiastic team members work diligently to make every shopping experience a good one. We even know our regular customers by name.

### *Our Results----*

Same-store sales in 2001 rose 3.8% and total sales increased 12%. Net income rose 29%, yielding earnings of \$2.33 per share up from \$1.87 a share the previous year.

The accelerated effort to build a still better team of store and district managers is producing solid results. The entire process of recruiting, training, and developing the management team has been rebuilt. The quality of the team is improving and turnover is declining.

Tractor Supply has also made tremendous strides improving management of the inventory. We operated the entire year with at least 97% in stock at stores on the 450 "driver items." At the same time, average store inventories were down 9%. We beat our aggressive inventory plans all year yielding substantially

improved inventory turn and reduced borrowings.

We successfully opened 18 new stores and remodeled and relocated five more. We continue to improve our demographic models, yielding still stronger performance from new stores. Initial plans call for at least 25 new stores this year and renovation or relocation of about 10 older stores in growth markets.



**Joe Scarlett**  
*Chairman of the Board and  
Chief Executive Officer*



# TO OUR SHAREHOLDERS

## (Continued)

Our support functions continue to excel. The investments made in computer systems over the last several years are contributing to operating efficiencies and improved inventory turn. The distribution facility investments are also key contributors. The other support functions -- human resources, accounting, real estate, etc. are all working in concert to provide store support and drive profits.

### *The Opportunity---*

At the beginning of 2002, Tractor Supply added 87 new stores from the bankruptcy of a major competitor. The new stores are located in the East and Midwest, in previously researched and targeted growth markets and are in addition to the 25 new stores mentioned previously. After others have liquidated the merchandise, we will quickly reconfigure the fixtures, stock the stores and start serving our new customers. We have already hired many of their best store managers, district managers, sales people, and support professionals.

This is a once-in-a-business-lifetime growth opportunity for Tractor Supply Company. Most of the new locations will be open before mid-year. We have aggressive timelines and comprehensive operational plans.

We will strengthen our purchasing power, broaden our marketing, leverage virtually every

expense category, and benefit from the elimination of our largest direct competitor. We are in the midst of our greatest challenge ever, and our team has stepped up like never before.

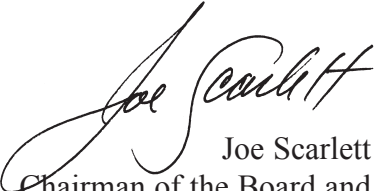
### *The Future---*

We know our customers, know our merchandise, know our demographics, and provide our customers with a superb shopping experience. We say with great confidence that the leadership team at the top and throughout the organization is the strongest, most aligned, and most aggressive in the company's history.

The future for Tractor Supply is very bright. We dominate a special niche in the retail market and are committed to never ending sales and profit growth.



**Jim Wright**  
*President and Chief Operating Officer*

  
**Joe Scarlett**  
*Chairman of the Board and  
Chief Executive Officer*

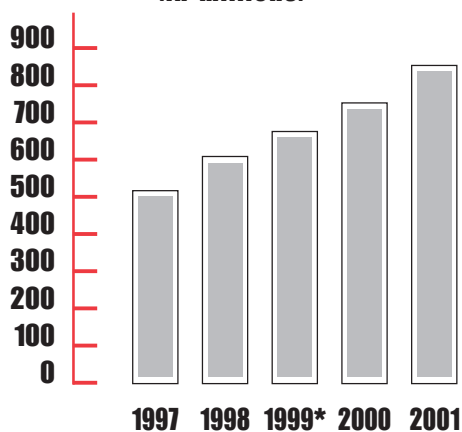
  
**Jim Wright**  
*President and Chief Operating Officer*

# FINANCIAL HIGHLIGHTS

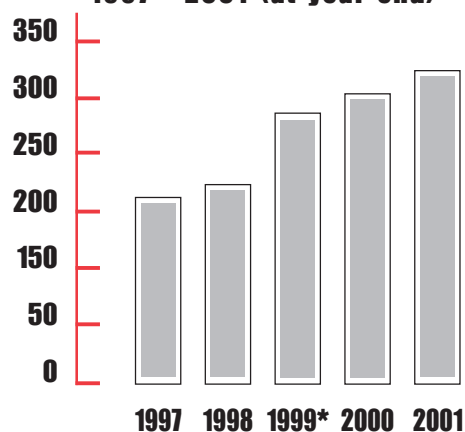
(in thousands, except where noted)

|                                               | Fiscal Year |           | Percent Increase<br>(Decrease) |
|-----------------------------------------------|-------------|-----------|--------------------------------|
|                                               | 2001        | 2000      |                                |
| <b>Operating Results:</b>                     |             |           |                                |
| Net sales                                     | \$849,799   | \$759,037 | 12.0%                          |
| Income before income taxes                    | 36,526      | 27,596    | 32.4                           |
| Net income                                    | 25,774      | 16,390    | 57.3                           |
| Net income per share - basic (\$)             | 2.92        | 1.87      | 56.1                           |
| Net income per share - assuming dilution (\$) | 2.85        | 1.87      | 52.4                           |
| <b>Financial Position:</b>                    |             |           |                                |
| Total assets                                  | 338,482     | 332,296   | 1.6                            |
| Cash and short-term investments               | 8,927       | 9,145     | (2.4)                          |
| Stockholders' equity                          | 181,296     | 155,036   | 16.4                           |
| Long-term debt to equity (%)                  | 12.8        | 40.6      |                                |
| <b>Statistics:</b>                            |             |           |                                |
| Number of stores (#)                          | 323         | 305       | 5.9                            |
| Square footage at year-end                    | 4,164       | 3,905     | 6.6                            |
| Average sales per store (\$)                  | 2,699       | 2,603     | 3.7                            |
| Net sales per square foot (\$)                | 209         | 204       | 2.5                            |

**Net Sales for 1997 - 2001**  
(in millions)



**Number of Stores for  
1997 - 2001 (at year end)**



\*53-week fiscal year

As with any business, all phases of the Company's operations are subject to influences outside its control. This report contains certain forward-looking statements. These statements include reference to certain factors, any one, or a combination, of which could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, pricing and other competitive factors, the ability to attract, train and retain highly qualified associates, the ability to identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions in general and the seasonality of the Company's business. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

# Wal★Mart Moved -- Tractor Supply Did, Too

*Jesse Guzman does the Texas two-step*

Retail sales growth in the Waco, Texas market resulted in Wal★Mart expanding to a “Supercenter”. Tractor Supply had also experienced significant sales growth in our Waco store.

We often find that our growth and Wal★Mart’s growth go hand-in-hand. As a result, over the last five years we have located Tractor Supply stores in a portion of over 30 former Wal★Mart stores.

Waco is one more example of a growth retail market where people live the rural lifestyle. So this past summer, Store Manager Jesse Guzman and his team did the “Texas two-step”. Step one was to turn 26,000 square feet of the former Wal★Mart into a new generation Tractor Supply store. Step two was to move the existing store to the new facilities. No, this wasn’t a dance, but the Waco store team and their customers are dancing for joy at the new expanded facility that is easier to shop and easier to operate.

Jesse has been managing a Tractor Supply store in Waco since 1987 and led a previous successful relocation back in the late 80’s. The new Waco facility has a bigger sales floor, a larger side lot, a new front entrance and a much larger parking area.

"The response from our customers has been



*Waco, Texas Store Manager Jesse Guzman proudly stands in front of his new store.*

tremendous," said Jesse. "They have rewarded us with their compliments and their business. Other stores, which have been relocated in this manner, have proven to be very profitable. And I expect the same from Waco."

Tractor Supply is committed to renovating, enlarging and relocating older profitable stores in growth markets. Significant improvements were made last year in Burleson, Texas; Elizabethtown, Kentucky; Warrenton, Virginia; and St. Joseph, Missouri. Sales floors were expanded, side lots were enlarged, new front entrances were added and parking lots were expanded. Other stores have been selected for future similar renovations and relocations.



# A Farmer, an Equine E

*Larry, Gina, and Sean provide the knowledge base for*

In the small town of Meadville, Pennsylvania, Larry, Gina and Sean go about their day at the local Tractor Supply store providing an intangible service to their customers -- expert product knowledge. This knowledge base has helped make the Meadville store very successful.

Tractor Supply stores offer a unique assortment of specialized products geared to the specific needs of our customers. Substantial knowledge is often required to explain product features and benefits. Team members who know the products and the customers are the most important components of success in our stores. No other farm and ranch retail chain offers more product knowledge than Tractor Supply; that's what differentiates us.

"Building The Team" is a mission of every store manager. The message is clear -- the higher the quality of people on the team, the more successful the store. The staffing goal for each store is to have a farmer/rancher, a welder, and an equine enthusiast on the team.

In Meadville, Larry Crom is our



*Meadville, Pennsylvania Equine Expert Gina Roberts assists her customer in selecting a bridle.*

expert farmer/rancher. Larry is a semi-retired farmer himself and knows many of his customers by name. He uses his experienced-based product knowledge about the core work of our traditional customer all the time and is

constantly sharing that knowledge with his fellow team members.

Gina Roberts lives on a 23-acre farm just outside of Meadville and owns two horses and a mule. She has a passion for these beautiful



# Enthusiast and a Welder

*success in Meadville, Pennsylvania*



*By using her knowledge of horses, Gina helps her customers daily with their equine needs.*

daily health and grooming needs. About one third of Tractor Supply's customers own horses, so who better to help equestrian customers at the Meadville Tractor Supply store than Gina. Customers really appreciate Gina's advice on

feed, health maintenance and grooming products for their animals.

Sean Coulter is called Mr. Mechanic in Meadville because of his love for car restoration. His

understanding of welding products and other tools has made him a great asset to his team. He is a confident and competent welder and an all-around handyman who truly understands his customers' needs. If you have a mechanical question, you can trust Sean for the answer.

At Tractor Supply, we are always seeking to improve our levels of product knowledge. In addition to the knowledge shared by our "experts", we also conduct training classes on many key product lines such as power equipment, animal feed, animal medicines, welders, air compressors, and work clothing. After all, it's the job of each team member to provide legendary customer service.

The success of every Tractor Supply store depends on the knowledge and attitude of each team member. It is everyone's ongoing job to keep learning about the products. The more knowledge we can share with our customers, the better the shopping experience.

Superior customer service is job number one. Our goal is to make every shopping experience a "great shopping experience."

# Gloria Ussery Trains Horses-- She Also Leads People

*A lady from Pennsylvania improves business south of Nashville*

**W**hat do training horses and leading people have in common? Both require strength, patience, determination, creativity and hard work. Gloria Ussery has those exact qualities. That's what makes her a great District Manager at Tractor Supply Company.

Gloria began her career with Tractor Supply in 2000 after relocating from Pennsylvania. She helped open 10 new stores in Florida before moving to Tennessee to become District Manager over 11 stores just south of Nashville. Her leadership has catapulted this district to the top third in the Company.

Just as Gloria trains her three horses to run successful field trials, Tractor Supply trains its leaders to provide well thought-out plans and consistent messages through semi-annual Leaders' Meetings.

Tractor Supply actively seeks those leaders who mirror the philosophies of the Company. "I believe in our Company's mission, values and core beliefs," stated Gloria. "This foundation has helped our Company through 63 years of challenge, change and growth. My goal, as a leader, is to

instill the same values in my team members."

Tractor Supply encourages its leaders to surround themselves with the right team members. "We have heard over and over again that the most important decision we ever make as leaders is the selection of the people that comprise our teams," said Gloria.

Another important aspect of the leaders' job is listening to their team members. "We encourage our team members to listen to their

customers," Gloria added. "As leaders, we must also listen to our teams because the best ideas about driving our business usually come from those closest to the customer."

"I've always believed that developing team members into "stars" is one of the most rewarding aspects of my job," Gloria stated. "If I can encourage initiative, teach, and coach effectively, then those around me will be successful and ultimately Tractor Supply will be even more successful."



*District Manager Gloria Ussery travels to the stores in her district weekly to visit with her managers and team members.*



## ALIGNMENT OF INTERESTS

# Benefits And Bonuses

***Kim Vella tells how what's good for employees is also good for shareholders***

"Our goal at Tractor Supply Company is to exceed our customer's expectations," stated Kim Vella, newly promoted Vice President of Human Resources. "It's good for the customer, good for business, good for the team members and good for the shareholders."

According to Kim, the Human Resources Department has the same goal - to take care of their customers - the team members. "Our underlying goal is for our team members to value their benefit plans and more closely bond to the organization," Kim added. "Reduced employee turnover and the ability to attract the right people lowers expenses, which is good for shareholders."

In early 2000, the Human Resources Department conducted a survey of our team members to determine the most valued benefits. After receiving solid feedback from a cross-functional group, Benefits Manager Betsy Hatcher and her team researched the best way to redesign the benefit plans to meet team member needs in the most cost-effective manner.

The team developed two new medical plan options, both with an added wellness benefit and



*Betsy Hatcher, Leslie Holt, Kim Vella, Nancy Bickel and Brandi Cox-Williams work hard to provide a benefits package that is mutually beneficial to team members and Tractor Supply.*

prescription drug card; supplemental and dependent life insurance; company-sponsored life insurance; flexible spending accounts; and a long-term disability plan for exempt team members. This was all accomplished within targeted cost goals.

The response has been overwhelmingly positive. But the Human Resources Department didn't stop there. The next mission: bonus plans.

Jim Wright, Cal Massmann and Kim Vella reviewed the various bonus plans and discovered there was opportunity to better align employee and shareholder interests. "It is important that we are

all focused on our profit plan," said Kim. "We need to ensure that our incentive plans are aligned with our goals."

After collaborating with all department heads, the Company's Board of Directors and an outside consulting group, the new bonus plans were rolled out with targets tied to Company goals. Tractor Supply is proud to have every team member participate in a bonus plan.

### **Mission Accomplished!**

Responsive benefit plans together with solid incentive bonus plans lead to motivated team members, which in turn, lead to improved shareholder value!

# Promotions, Promotions, Promotions.....

*We promoted power equipment and  
women's work wear.  
We promoted Tom Parrish too!*

## ***Promoting Power Equipment...***

**P**ower equipment --- primarily riding lawn mowers --- continues to be a dominant category producing significant sales volume and positioning Tractor Supply as an industry leader. Buyer Robert Bolyard said, "We, along with our manufacturing partner MTD, select the features and benefits for each of our riders. We relentlessly promote this product line in print, and on radio and television with spokesman George Strait. As a result of our promotional efforts, total unit sales in 2001 exceeded our record year 2000 sales in spite of softer total demand."

Power equipment promotion isn't over. In 2002, for the first time ever, Tractor Supply will carry the Cub Cadet line of the very highest quality riding mowers in America. Prior to this year, Cub Cadet and other premium riders have only been available through traditional independent dealers.

Senior Vice President Jerry Brase said "We are thrilled to be the first mass retailer in America to offer a truly premium rider line to our customers. We will aggressively promote this product line in 2002."

## ***Promoting Women's Work Wear...***

Our customer base has changed and evolved over the years. Today, 50% of our customers are women--so what could be more logical than promoting women's work wear? Tractor Supply Company has been experimenting with various pilot assortments of women's work wear for more than three years. The results of all those pilot programs: a complete line that was rolled out late last summer. Aggressive sales promotion, along with a great product assortment, has made the women's work clothing program an overwhelming success.

## ***Promoting from within...***

Another promotion in 2001... Tom Parrish. Tom grew up in the organization and was recently promoted to Vice President-Divisional

Merchandise Manager. He began his career with Tractor Supply in 1993 as an Assistant Buyer in merchandising. He was promoted to Buyer in 1995. While a Buyer, Tom successfully fine-tuned his product assortments improving turnover and margins.

Over the years, Tom's merchandise responsibilities have included buying virtually all products for the health, care, growth and containment of equine, livestock and pets, as well as a broad selection of agricultural products, men's work clothing, and lawn and garden power equipment.

Tom and his merchandise team are committed to further driving sales, improving gross margins and continuing the tremendous improvement in the management of inventory. With strengthened leadership and new, innovative product lines, Tractor Supply will continue to expand its domination of the farm and ranch store business.





# IT, POS, SSC, SAP, ERP, ATM, DC, RF... What Do All These Letters Mean?

*Sanjay Zachariah takes the mystery out of the latest technology developments*

**A**lthough technology may be difficult for many people to understand, it doesn't have to be like a foreign language. At Tractor Supply Company (TSC), the use of technology is a very important part of our competitive advantage.

TSC's Information Technology (IT) Department recently upgraded several of its most important systems including the Point-of-Sale (POS) cash register system. The new hardware platform for POS performs most processes 30-50% faster than the previous system and provides new opportunities to gain efficiencies.

The store POS systems are connected to systems at the Store Support Center (SSC) that include a Sales Audit System, a Data Warehouse, Email and an SAP Enterprise Resource Planning (ERP) System. This connection is made possible via an ATM (Asynchronous Transfer Mode) / Frame Relay connection, which provides an "always-on" connection to all stores allowing

continuous data transmission between the Support Center and the stores.

Sanjay Zachariah, recently promoted Director of Enterprise Systems Development, demystifies these systems for us. "All of the sales transactions come into our Sales Audit system where we balance each store's cash, credit and check transactions, then they are transmitted to our Data Warehouse, which provides actionable and flexible reporting to virtually all of the different departments in the Company. Finally, the sales and receiving information is posted in our SAP ERP system where we manage our merchandise assortments, replenishment, and accounting processes," said Sanjay.

Tractor Supply successfully implemented SAP in 1999 and just completed a four-month upgrade to SAP's most current software release, version 4.6c, which provides a platform for future growth.

**So what's next?** "We're working right now on a project to



*Sanjay Zachariah displays the new hardware platform for the POS system.*

automate all of the processes at our Pendleton, Indiana Distribution Center (DC) for implementation later this year," commented Sanjay. "Through the use of radio frequency (RF) and voice-activated mobile terminals, we will improve the efficiency and accuracy of our inventory management processes, resulting in faster response time and lower required inventory levels."

So the next time you hear someone say, "The IT Department upgraded the POS system that utilizes an ATM/Frame Relay Connection to the SAP ERP system at the SSC;" it won't be a mystery. You will know that Tractor Supply Company has up-to-date store and support center systems that provide the information and controls to effectively manage our business.

# FIVE YEAR SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

|                                                 | <u>Fiscal Year Ended</u><br>(in thousands, except per share and operating data) |                      |                      |                      |                      |
|-------------------------------------------------|---------------------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                                 | December 29,<br>2001                                                            | December 30,<br>2000 | January 1,<br>2000 * | December 26,<br>1998 | December 27,<br>1997 |
| <b>Operating Results:</b>                       |                                                                                 |                      |                      |                      |                      |
| Net sales                                       | \$ 849,799                                                                      | \$ 759,037           | \$ 688,082           | \$ 600,677           | \$ 509,052           |
| Gross margin                                    | 228,344                                                                         | 200,407              | 181,251              | 154,638              | 131,542              |
| Selling, general and<br>administrative expenses | 178,243                                                                         | 156,535              | 139,725              | 120,734              | 104,661              |
| Depreciation and amortization                   | 11,254                                                                          | 9,889                | 7,311                | 5,342                | 4,509                |
| Income from operations                          | 38,847                                                                          | 33,983               | 34,215               | 28,562               | 22,372               |
| Interest expense, net                           | 4,494                                                                           | 6,387                | 4,104                | 3,270                | 2,439                |
| Unusual item: gain on life insurance            | 2,173                                                                           | ---                  | ---                  | ---                  | ---                  |
| Income before income taxes                      | 36,526                                                                          | 27,596               | 30,111               | 25,292               | 19,933               |
| Income tax provision                            | 10,752                                                                          | 11,206               | 12,237               | 10,492               | 8,172                |
| Net income                                      | \$ 25,774                                                                       | \$ 16,390            | \$ 17,874            | \$ 14,800            | \$ 11,761            |
| Net income per share - basic (a)                | \$ 2.92                                                                         | \$ 1.87              | \$ 2.04              | \$ 1.69              | \$ 1.34              |
| Net income per share - assuming dilution (a)    | \$ 2.85                                                                         | \$ 1.87              | \$ 2.02              | \$ 1.68              | \$ 1.34              |
| Dividends declared per share                    | ---                                                                             | ---                  | ---                  | ---                  | ---                  |
| <b>Operating Data:</b>                          |                                                                                 |                      |                      |                      |                      |
| Gross margin                                    | 26.9%                                                                           | 26.4%                | 26.3%                | 25.7%                | 25.8%                |
| Selling, general and administrative expenses    | 21.0%                                                                           | 20.6%                | 20.3%                | 20.1%                | 20.5%                |
| Income from operations                          | 4.6%                                                                            | 4.5%                 | 5.0%                 | 4.7%                 | 4.4%                 |
| Net income                                      | 3.0%                                                                            | 2.2%                 | 2.6%                 | 2.5%                 | 2.3%                 |
| Number of stores:                               |                                                                                 |                      |                      |                      |                      |
| Beginning of year                               | 305                                                                             | 273                  | 243                  | 228                  | 208                  |
| New stores                                      | 18                                                                              | 35                   | 31                   | 15                   | 22                   |
| Closed stores                                   | ---                                                                             | (3)                  | (1)                  | ---                  | (2)                  |
| End of year                                     | 323                                                                             | 305                  | 273                  | 243                  | 228                  |
| Number of relocated stores                      | 1                                                                               | 1                    | 1                    | 1                    | 1                    |
| Number of remodeled stores (b)                  | 4                                                                               | ---                  | ---                  | ---                  | ---                  |
| Total selling square footage at period end(c)   | 4,164,190                                                                       | 3,904,958            | 3,448,347            | 3,014,196            | 2,806,864            |
| Average sales per store (in thousands) (d)      | \$ 2,699                                                                        | \$ 2,603             | \$ 2,682             | \$ 2,542             | \$ 2,300             |
| Net sales per square foot of selling space      | \$ 209                                                                          | \$ 204               | \$ 214               | \$ 206               | \$ 187               |
| Comparable store sales increase (e)             | 3.8%                                                                            | .4%                  | 4.4%                 | 10.9%                | 3.1%                 |
| <b>Balance Sheet Data (at end of period):</b>   |                                                                                 |                      |                      |                      |                      |
| Working capital                                 | \$ 122,309                                                                      | \$ 133,731           | \$ 117,306           | \$ 95,530            | \$ 82,869            |
| Total assets                                    | 338,482                                                                         | 332,296              | 302,630              | 264,649              | 224,080              |
| Long-term debt, less current portion (f)        | 23,157                                                                          | 62,950               | 54,683               | 37,132               | 31,134               |
| Stockholders' equity                            | 181,296                                                                         | 155,036              | 138,305              | 119,976              | 104,889              |

\* 53-week fiscal year

- (a) Basic net income per share is calculated based on the weighted average number of common shares outstanding applied to net income. Diluted net income per share is calculated using the treasury stock method for options and warrants.
- (b) Includes remodelings costing more than \$150,000.
- (c) Total selling square footage includes normal selling space and excludes office, stockroom, receiving space and outside selling space.
- (d) Average sales per store is calculated based on the weighted average number of days open in the applicable period.
- (e) Comparable store sales increases are calculated on a 52-week basis, excluding relocations, using all stores open at least one year.
- (f) Long-term debt includes borrowings under the Company's principal revolving credit agreements, term loan agreements and amounts outstanding under its capital lease obligations, excluding the current portions of each.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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The following discussion and analysis describes certain factors affecting Tractor Supply Company's (the "Company") results of operations for the three fiscal years ended December 29, 2001 and its liquidity and capital resources. This discussion should be read in conjunction with the financial statements and notes thereto included elsewhere in this Annual Report. The following discussion and analysis also contains certain historical and forward-looking information. The forward-looking statements 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 the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), business strategy, expansion and growth of the Company's business operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, the Company is identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by or on behalf of the Company.

All phases of the Company's operations are subject to influences outside its control. Any one, or a combination, of these factors could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, pricing and other competitive factors, the ability to attract, train and retain highly qualified associates, the ability to identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions in general and the seasonality of the Company's business. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

The Company's fiscal year ends on the Saturday closest to December 31. Fiscal years 2001 and 2000 consist of 52 weeks, while fiscal year 1999 consists of 53 weeks.

## Overview

Since its founding as a mail order tractor parts business in 1938, the Company has grown to be the largest operator of retail farm and ranch stores in the United States. The Company supplies the daily farming and maintenance needs of its target customers: hobby, part-time and full-time farmers and ranchers, as well as rural customers, contractors and tradesmen. The Company's stores typically range in size from 12,000 to 15,000 square feet of inside selling space and utilize at least as many square feet of outside selling space. An average store displays a comprehensive selection of 12,000 to 14,000 different products including farm maintenance products (fencing, tractor parts and accessories, agricultural spraying equipment and tillage parts); animal and pet products (specialty feeds, supplements, medicines, veterinary supplies and livestock feeders); general maintenance products (air compressors, welders, generators, pumps, plumbing and tools); lawn and garden products (riding mowers, tillers and fertilizers); light truck equipment; and work clothing. The stores are located in the outlying towns of major metropolitan markets and in rural communities.

The Company's current and long-term growth strategy is built on a combination of (1) expanded geographic market presence, achieved through the opening of new retail stores at an approximate annualized rate of 8% to 10% unit growth and (2) enhanced financial performance through comparable store sales increases, achieved through aggressive merchandising programs with an "everyday low prices" philosophy, supported by strong customer service.

Over the past eight fiscal years since the Company's initial public offering in February 1994 (the "Offering"), the Company has opened 177 new retail stores: 13 in fiscal 1994, 20 in fiscal 1995, 23 in fiscal 1996, 22 in fiscal 1997, 15 in fiscal 1998, 31 in fiscal 1999, 35 in fiscal 2000 and 18 in fiscal 2001. These new stores have increased the Company's market presence in the Southwest, primarily in Texas, and in the Southeast, primarily in Tennessee, Kentucky, North Carolina and Florida. This expansion brings the Company's total store count to 323 (in 28 states) as of December 29, 2001. The Company has a base plan to open 25 stores in fiscal 2002 (an approximate 8% unit growth rate) and, with the acquisition of certain real estate properties and lease rights from Quality Stores, Inc., an additional 87 stores. Approximately 13 new stores are scheduled to open in the first quarter of fiscal 2002 with an additional 94 store openings planned by the middle of the year. In total over the past eight fiscal years since the Offering, the Company has opened, relocated or remodeled 205 stores.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Additionally, the Company has placed significant emphasis on its merchandising programs, evaluating the sales and profitability of its products through detailed line reviews, vendor performance measures and modification of the overall product offerings. These efforts, coupled with a strong marketing program and in-depth product knowledge training of store associates, have enhanced sales, improved gross margins and generated improved overall financial performance.

## Seasonality and Weather

The Company's business is highly seasonal. Historically, the Company's sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the sale of seasonal products. The Company typically operates at a net loss in the first fiscal quarter of each year. Unseasonable weather, excessive rain, drought, and early or late frosts may also affect the Company's sales. The Company believes, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of its stores.

The Company experiences a buildup of inventory and accounts payable during its first fiscal quarter each year for purchases of seasonal product in anticipation of the April through June selling season and again during its third fiscal quarter in anticipation of the October through December selling season.

The Company's unaudited quarterly operating results for each fiscal quarter of 2001 and 2000 are shown below (dollars in thousands, except per share amounts):

|                                                    | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total     |
|----------------------------------------------------|------------------|-------------------|------------------|-------------------|-----------|
| <b>2001</b>                                        |                  |                   |                  |                   |           |
| Net sales                                          | \$162,517        | \$267,490         | \$199,435        | \$220,357         | \$849,799 |
| Gross margin                                       | 42,095           | 71,793            | 53,972           | 60,484            | 228,344   |
| Income (loss) from operations                      | (1,565)          | 23,455            | 4,933            | 12,024            | 38,847    |
| Net income (loss)                                  | (1,849)          | 15,644            | 2,425            | 9,554             | 25,774    |
| Net income (loss) per share - basic                | (.21)            | 1.78              | .28              | 1.08              | 2.92      |
| Net income (loss) per share -<br>assuming dilution | \$ (.21)         | \$ 1.76           | \$ .27           | \$ 1.03           | \$ 2.85   |

|                                                    | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total     |
|----------------------------------------------------|------------------|-------------------|------------------|-------------------|-----------|
| <b>2000</b>                                        |                  |                   |                  |                   |           |
| Net sales                                          | \$147,482        | \$232,341         | \$175,478        | \$203,736         | \$759,037 |
| Gross margin                                       | 37,604           | 61,585            | 45,117           | 56,101            | 200,407   |
| Income (loss) from operations                      | (338)            | 19,062            | 3,619            | 11,640            | 33,983    |
| Net income (loss)                                  | (975)            | 10,546            | 1,123            | 5,696             | 16,390    |
| Net income (loss) per share - basic                | (.11)            | 1.20              | .13              | .65               | 1.87      |
| Net income (loss) per share -<br>assuming dilution | \$ (.11)         | \$ 1.20           | \$ .13           | \$ .65            | \$ 1.87   |



# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Results of Operations

The following table sets forth, for the periods indicated, certain items in the Company's Statements of Income expressed as a percentage of net sales:

|                                              | Fiscal Year Ended    |                      |                    |                      |                      |
|----------------------------------------------|----------------------|----------------------|--------------------|----------------------|----------------------|
|                                              | December 29,<br>2001 | December 30,<br>2000 | January 1,<br>2000 | December 26,<br>1998 | December 27,<br>1997 |
| Net sales                                    | 100.0%               | 100.0%               | 100.0%             | 100.0%               | 100.0%               |
| Cost of merchandise sold                     | <u>73.1</u>          | <u>73.6</u>          | <u>73.7</u>        | <u>74.3</u>          | <u>74.2</u>          |
| Gross margin                                 | 26.9                 | 26.4                 | 26.3               | 25.7                 | 25.8                 |
| Selling, general and administrative expenses | 21.0                 | 20.6                 | 20.3               | 20.1                 | 20.5                 |
| Depreciation and amortization                | <u>1.3</u>           | <u>1.3</u>           | <u>1.0</u>         | <u>0.9</u>           | <u>0.9</u>           |
| Income from operations                       | 4.6                  | 4.5                  | 5.0                | 4.7                  | 4.4                  |
| Interest expense, net                        | 0.5                  | 0.8                  | 0.6                | 0.5                  | 0.5                  |
| Unusual item: gain on life insurance         | <u>0.2</u>           | <u>---</u>           | <u>---</u>         | <u>---</u>           | <u>---</u>           |
| Income before income taxes                   | 4.3                  | 3.7                  | 4.4                | 4.2                  | 3.9                  |
| Income tax provision                         | <u>1.3</u>           | <u>1.5</u>           | <u>1.8</u>         | <u>1.7</u>           | <u>1.6</u>           |
| Net income                                   | <u>3.0%</u>          | <u>2.2%</u>          | <u>2.6%</u>        | <u>2.5%</u>          | <u>2.3%</u>          |

## Fiscal 2001 Compared to Fiscal 2000

Net sales increased 12.0% to \$849.8 million in fiscal 2001 from \$759.0 million in fiscal 2000. This increase resulted from the opening of new stores as well as comparable store sales (calculated on a 52-week basis, excluding relocations, using all stores open at least one year), which increased 3.8% for fiscal 2001. The increase in comparable store sales for fiscal 2001 was a result of new merchandising programs and reduced competition in certain markets, offset by general economic challenges in 2001 and the warmer weather patterns in the fourth quarter of fiscal 2001. The Company opened 18 new stores and relocated one store in fiscal 2001. The Company opened 35 new stores, closed three stores and relocated one store in fiscal 2000. At December 29, 2001, the Company operated 323 stores compared to 305 stores at the end of the prior fiscal year.

In fiscal 2002, the Company has a base plan to open 25 stores (an approximate 8% unit growth) and, with the acquisition of certain real estate properties and lease rights from Quality Stores, Inc., an additional 87 stores. Additionally, the Company plans to relocate 10 to 12 stores in fiscal 2002, primarily in the third and fourth quarters.

The gross margin rate increased 0.5 percentage point to 26.9% of sales in fiscal 2001 from 26.4% in fiscal 2000. This gross margin improvement resulted from a reduction in product costs achieved through detailed product line reviews, improved product assortments and other merchandising initiatives.

As a percent of sales, selling, general and administrative expenses increased 0.4 percentage point to 21.0% for fiscal 2001 from 20.6% for fiscal 2000. On an absolute basis, selling, general and administrative expenses increased 13.9% to \$178.2 million for fiscal 2001 from \$156.5 million in fiscal 2000. The increase in expenses on a percentage-of-sales basis is primarily a result of increased investment in store level expenses (primarily payroll and training), higher incentive accruals, offset, in part, by greater leverage from same-store sales performance. The increase in absolute dollars is primarily attributable to costs associated with new store openings (new stores have higher occupancy costs, primarily rent, than the existing store base), as well as increased investment in store payroll, training, and higher incentive accruals.

During fiscal 2001, the Company continued its major media advertising program which includes a national television campaign featuring a celebrity spokesperson, significantly expanded use of radio promotions and increased print advertising. This program is partially funded each year through the support of the Company's vendor partners.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Depreciation and amortization expense increased 13.8% over the prior year due mainly to costs associated with new and relocated stores and remodeled existing stores.

Net interest expense decreased 29.6% in fiscal 2001 from fiscal 2000. The decrease in interest expense reflects reduced borrowings under the senior credit facility, primarily attributable to lower average inventory balances and improved same-store sales performance, as well as reduced short-term borrowing rates during the period.

Exclusive of the non-taxable \$2.1 million gain on the proceeds of life insurance and the \$2.5 million reduction of previously accrued income taxes, the Company's effective tax rate decreased to 38.6% for fiscal 2001 compared to 40.6% for fiscal 2000. The effective tax rate decreased primarily due to a reduction in state income taxes. The Company reevaluated its tax exposure during the quarter ended December 29, 2001; as a result of the favorable resolution of certain tax issues, along with the closing of open tax years, the Company reduced previously accrued income tax liabilities by \$2.5 million.

As a result of the foregoing factors, net income increased 57.3% to \$25.8 million in fiscal 2001 from \$16.4 million in fiscal 2000. As a percent of sales, net income increased 0.8 percentage point to 3.0% of sales in fiscal 2001 from 2.2% of sales in fiscal 2000.

## Fiscal 2000 Compared to Fiscal 1999

Net sales increased 10.3% to \$759.0 million in fiscal 2000 from \$688.1 million in fiscal 1999. This increase resulted primarily from new store openings and relocations, and, to a lesser extent, a comparable store sales increase of .4% (calculated on a 52-week basis, excluding relocations, using all stores open at least one year), while impacted by the inclusion of an additional week of operations in fiscal 1999 (due to the Company's fiscal year-end policy). Comparable store sales performance was significantly affected by the sale of generators and other Y2K-related products in fiscal 1999. The Company substantially mitigated this impact through the successful promotion of special purchase merchandise selected for the maintenance needs of core customers. Also, the Company benefited from favorable cold weather in November and December, which prompted improved sales of winter workwear and heating products. Excluding the effect of generator and other Y2K-related sales, comparable store sales increased 2.9% over fiscal 1999. The Company opened 35 new stores, closed three stores and relocated one store in fiscal 2000. The Company opened 31 new stores, closed one store and relocated one store in fiscal 1999. At December 30, 2000, the Company operated 305 retail farm stores versus 273 stores at the end of the prior fiscal year.

The gross margin rate increased 0.1 percentage point to 26.4% of sales in fiscal 2000 from 26.3% in fiscal 1999. In 1999, the Company experienced a significant change in the year-end mix of certain inventory items and achieved lower purchase costs for other inventory items. These factors contributed to a reduction in the expected LIFO provision and had the effect of increasing the 1999 gross margin rate by 0.3 percentage point. Exclusive of the favorable LIFO effect in 1999, the year 2000 gross margin improvement of 0.4% resulted from a reduction in product costs achieved through detailed product line reviews as well as improved product assortments accomplished through significant remerchandising efforts.

As a percent of sales, selling, general and administrative expenses increased 0.3 percentage point to 20.6% for fiscal 2000 from 20.3% for fiscal 1999. On an absolute basis, selling, general and administrative expenses increased 12.0% to \$156.5 million for fiscal 2000 from \$139.7 million in fiscal 1999. The increase in expenses on a percentage-of-sales basis is primarily a result of costs associated with new stores as well as the leverage loss attributable to the lower than anticipated comparable store sales performance. The increase in absolute dollars is primarily due to costs associated with new store openings (new stores have higher occupancy costs, primarily rent, than the existing store base), as well as increased costs associated with the Company's expanded infrastructure (primarily larger distribution facilities and store support service capacity). These increases were offset, to some extent, by lower incentive accruals, one less week of operating expenses (fiscal 2000 reflects 52 weeks of operations compared to fiscal 1999 which is comprised of 53 weeks) and a non-recurring expense of approximately \$1 million in fiscal 1999 relating to the Company's relocation of two of its distribution centers.

During fiscal 2000, the Company continued its major media advertising program, which includes a national television campaign featuring a celebrity spokesperson, significantly expanded use of radio promotions and increased print advertising. This program is partially funded each year through the support of the Company's vendor partners.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Depreciation and amortization expense increased 35.3% over the prior year due mainly to costs associated with new and relocated stores and increased investment in infrastructure (mainly the merchandise and warehouse management system).

Net interest expense increased 55.6% in fiscal 2000 from fiscal 1999. The increase in interest expense reflects additional borrowings under the senior credit facility to fund the Company's growth and expansion plans, resulting in a higher average outstanding debt balance in fiscal 2000 compared to fiscal 1999.

The Company's effective tax rate remained unchanged at 40.6% for both fiscal 2000 and fiscal 1999.

As a result of the foregoing factors, net income decreased 8.3% to \$16.4 million in fiscal 2000 from \$17.9 million in fiscal 1999. As a percent of sales, net income decreased 0.4 percentage point to 2.2% of sales in fiscal 2000 from 2.6% of sales in fiscal 1999.

## Liquidity and Capital Resources

In addition to normal operating expenses, the Company's primary ongoing cash requirements are those necessary for the Company's expansion, remodeling and relocation programs, including inventory purchases and capital expenditures. The Company's primary ongoing sources of liquidity are funds provided from operations, commitments available under its credit agreements and short-term trade credit. The Company's inventory and accounts payable levels typically build in the first and again in the third fiscal quarters in anticipation of the spring and fall selling seasons.

At December 29, 2001, the Company's inventories had decreased \$0.5 million to \$222.0 million from \$222.5 million at December 30, 2000. This decrease was primarily attributable to improvements in inventory management achieved through an enhanced replenishment system (a 5.8% reduction in average inventory per store compared to December 30, 2000). Short-term trade credit, which represents a source of financing for inventory, increased \$10.7 million to \$81.0 million at December 29, 2001 from \$70.3 million at December 30, 2000. Trade credit arises from the Company's vendors granting extended payment terms for inventory purchases. Payment terms vary from 30 days to 180 days depending on the inventory product.

At December 29, 2001, the Company had working capital of \$122.3 million, which represented a \$11.4 million decrease from December 30, 2000. This decrease resulted primarily from a decrease in inventory (attributable mainly to the factors described above) with an increase in accounts payable and an increase in accrued expenses (mainly due to timing of payments, as well as higher incentive and insurance accruals), offset by an increase in prepaid expenses and other current assets (mainly construction-in-progress costs pertaining to planned sale/leaseback transactions respecting certain 2001 and 2002 new stores) and a decrease in current deferred income taxes. At December 30, 2000, the Company had working capital of \$133.7 million, which represented a \$16.4 million increase from January 1, 2000. This increase resulted primarily from an increase in inventory without a corresponding increase in accounts payable, an increase in prepaid expenses and other current assets (mainly construction-in-progress costs pertaining to planned sale/leaseback transactions respecting certain 2000 and 2001 new stores), an increase in cash and cash equivalents, a decrease in income taxes payable and a decrease in current deferred income taxes.

In November 2000, the Company entered into a three-year unsecured senior revolving credit facility with Bank of America, N.A., as agent for a lender group, (the "Senior Credit Facility") whereby the Company may borrow up to \$125 million. This credit facility was used to refinance all outstanding indebtedness under the existing revolving credit agreement. (The Company amended its then existing credit agreement in November 1999 to increase the maximum total commitments to \$75 million.) At December 29, 2001, the Company had \$15.1 million of borrowings outstanding under the Senior Credit Facility. The Company expects to continue borrowing amounts under the Senior Credit Facility from time to time to fund its growth and expansion programs and as a source of seasonal working capital.

After the close of fiscal year 2001, the United States Bankruptcy Court approved a transaction for the sale of certain assets of Quality Stores, Inc., the Company's single largest national competitor. The Company purchased the real property for 24 stores, the lease rights to 76 stores and the furniture and fixtures from 100 stores. Total consideration, including estimated transaction costs, was approximately \$35 million. The Company may sell and leaseback 20 of the real properties and sell four properties with expected proceeds of approximately \$23 million. Alternatively, the Company may mortgage the related properties or otherwise obtain long-term financing. The Company plans to open 87 of the locations as new Tractor Supply stores by the middle of fiscal 2002 and to relocate existing Tractor Supply stores in nine other locations later in the same year. Capital expenditures to convert the stores to the Tractor

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Supply format are expected to be \$12 to \$13 million and inventories for the converted stores are expected to total between \$55 and \$60 million. The Company believes that its cash flow from operations, borrowings available under its Senior Credit Facility and short-term trade credit will be sufficient to fund this expansion.

With this transaction, the Company has committed to a store growth plan in fiscal 2002 which is approximately four times the historical unit store growth plan for a single year. However, the Company has avoided the potential pitfalls of acquiring redundant headquarters and information systems. Further, the Company did not acquire any inventory, thus avoiding the challenges of integrating similar product with dissimilar packaging into its existing stock, as well as avoiding the challenge of liquidating other products which conflicts with the Company's existing product offerings. Rather, the Company has selected only the geographic markets that it believes have the greatest potential (many of which were part of the Company's previously established near-term growth plan) and the Company has already hired many store managers and district managers to operate these new stores. With this experienced retail workforce, the Company has developed an accelerated training program to complete the transition. Further, the Company believes it has the needed distribution capacity at its primary distribution center in Indiana to accommodate this increased volume. Organizational meetings with the Company's key vendor partners have been held, confirming a strong source of support and product supply, with extended payment terms and additional discounts. Enhancements to the Company's information systems that have been made over the last three years should provide the necessary systems support for this aggressive growth. Finally, the required additions to other functional areas (e.g. merchandising, human resources and accounting) that are needed to maintain the appropriate infrastructure for support are also substantially in place.

This aggressive expansion will occur in a more compressed timeframe than the Company's historical store growth. The Company expects to start receiving physical possession of the facilities in early March, with activities to renovate the facilities, train the personnel and stock the stores taking place at a very rapid pace. However, the Company has deployed numerous "store set-up" teams to achieve the state of readiness required to enable all such stores to be opened by July 1, 2002. The Company expects to incur no more than the typical level of per-store training and pre-opening costs associated with any store opening; however, due the more concentrated timeline of the pre-opening activity (approximately four months), the operating results are expected to be slightly dilutive for the full year. The timing of the completion of improvements to the new locations may make a significant difference in the results of operations for the first half and full year.

Operations provided net cash of \$46.8 million in fiscal 2001, provided net cash of \$10.2 million in fiscal 2000 and used net cash of \$7.7 million in fiscal 1999. The generation of cash in fiscal 2001 resulted primarily from net income as well as inventories decreasing at a faster rate than accounts payable compared to the prior year. The generation of cash in fiscal 2000 resulted primarily from net income offset, in part, by inventories increasing at a faster rate than accounts payable compared to the prior year.

Cash used in investing activities of \$10.7 million, \$16.7 million and \$19.6 million for fiscal 2001, 2000 and 1999, respectively, resulted primarily from capital expenditures for new, relocated and remodeled stores and for new merchandise and warehouse management systems, partially offset by proceeds from the sale of certain properties (primarily land and buildings) and the liquidation of certain life insurance policies (in fiscal 2001).

Financing activities in fiscal 2001 used \$36.3 million in cash, which represented a \$45.0 million decrease from the \$8.7 million in cash provided in fiscal 2000. This decrease resulted primarily from net repayments of \$34.9 million under the revolving credit agreement in fiscal 2001 compared to net borrowings of approximately \$11.9 million in fiscal 2000, as well as repayments of long-term debt of \$5.6 million in fiscal 2001 compared to \$3.0 million in fiscal 2000. This decrease was offset, in part, by net proceeds from life insurance benefits of \$2.5 million in fiscal 2001 and \$1.9 million in proceeds from issuance of common stock in fiscal 2001. Financing activities in fiscal 2000 provided \$8.7 million in cash, which represented a \$7.4 million decrease from the \$16.1 million in cash provided in fiscal 1999. This decrease resulted primarily from net borrowings of \$11.9 million under the revolving credit agreement in fiscal 2000 compared to net borrowings of \$19.1 million in 1999.

The Company's capital additions were \$13.6 million, \$17.4 million and \$20.4 million in fiscal 2001, 2000 and 1999, respectively. The majority of the capital additions were for store fixtures, equipment and leasehold improvements for new stores and remodeling of existing stores as well as the merchandise and warehouse management system. The Company expects that its capital expenditures for fiscal 2002 will be approximately \$18 million to \$20 million for the base store openings plan of 25 new stores. Additionally, the Company has spent approximately \$35 million (including transaction costs) for certain assets and lease rights for certain retail stores



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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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formerly operated by Quality Stores, Inc. (The Company has received a waiver of the applicable restrictive loan covenants from its bank group for the transaction). This planned spending is predicated on the successful implementation of the Company's growth strategy through approximately 112 planned new store openings and ten to twelve relocations of existing stores. However, the Company cannot predict with certainty the amount of such expenditures because such new stores may be constructed, leased or acquired from others. The estimated cash required to open a new store is approximately \$0.8 to \$1.0 million, the majority of which is for the initial acquisition of inventory and capital expenditures, principally leasehold improvements, fixtures and equipment, and the balance of which is for store opening expenses.

The Company believes that its cash flow from operations, borrowings available under the Senior Credit Facility and short-term trade credit will be sufficient to fund the Company's operations and its capital expenditure plans, including store openings and renovations, over the next several years.

## Litigation

The Company is involved in various litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect on the Company's consolidated financial position or results of operations. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

## Market Risks

The Company is exposed to changes in interest rates primarily from its variable-rate, long-term debt arrangements. Under its current policies, the Company uses interest rate swaps to manage exposure to interest rate changes for a portion of its debt arrangements. Taking into account the effects of interest rate swaps designated as hedges, a hypothetical 100 basis point adverse move (decrease) in interest rates along the entire interest rate yield curve would result in approximately \$300,000 of additional interest expense and would not impact the fair market value of the long-term debt.

Although the Company cannot accurately determine the precise effect of inflation on its operations, it does not believe its sales or results of operations have been materially affected by inflation. The Company has been successful, in many cases, in reducing or mitigating the effects of inflation principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases and selective buying from the most competitive vendors without sacrificing quality.

## Recent SEC Disclosure Guidance

In December 2001 and January 2002, the Securities and Exchange Commission issued financial reporting releases, FR-60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" and FR-61, "Commission Statement about Management Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations," respectively. FR-60 focuses on the need for more discussion about critical accounting policies. FR-61 focuses on additional disclosure relating to liquidity and capital resources, including off-balance sheet arrangements and related party transactions. The extent of the Company's off-balance sheet arrangements are limited to letters of credit, operating leases for buildings and equipment for retail stores, distribution centers and offices (see Notes 2 and 4 to the accompanying financial statements). The Company's only related party transactions are capital lease arrangements on six retail stores entered into in 1986 (see Note 9 to accompanying financial statements). The Company's critical accounting policies are disclosed in Note 1 to the accompanying financial statements.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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## Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill amortization ceases when the new standard is adopted. The new rule also requires an initial goodwill impairment assessment in the year of adoption and annual impairment tests thereafter. The Company adopted this Statement effective December 30, 2001. At December 29, 2001 the Company had unamortized negative goodwill of \$175,000. Application of this Statement will result in the write-off of the remaining negative goodwill, increasing income before income taxes by \$175,000 in the first quarter of fiscal 2002.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") which provides clarifications of certain implementation issues within SFAS 121, along with additional guidance on the accounting for the impairment or disposal of long-lived assets. SFAS 144 supersedes SFA 121 and applies to all long-lived assets (including discontinued operations) and consequently amended APB 30 "Reporting the Effects of Disposal of a Segment of a Business." SFAS 144 develops one accounting model (based on the model in SFAS 121) for long-lived assets that are to be disposed of by sale, as well as addresses the principal implementation issues. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company believes the adoption of this standard will not have a material effect on the Company's financial position or results of operations.

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders  
Tractor Supply Company

We have audited the consolidated balance sheet of Tractor Supply Company as of December 29, 2001, and the related consolidated statement of income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated balance sheet of Tractor Supply Company as of December 30, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years in the period ended December 30, 2000, were audited by other auditors whose report dated, January 24, 2001, expressed an unqualified opinion on those statements.

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

In our opinion, the 2001 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tractor Supply Company at December 29, 2001, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Nashville, Tennessee  
January 18, 2002

*Ernst & Young LLP*

# CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

|                                              | For the fiscal year ended |                      |                    |
|----------------------------------------------|---------------------------|----------------------|--------------------|
|                                              | December 29,<br>2001      | December 30,<br>2000 | January 1,<br>2000 |
| Net sales                                    | \$ 849,799                | \$ 759,037           | \$ 688,082         |
| Cost of merchandise sold                     | 621,455                   | 558,630              | 06,831             |
| Gross profit                                 | 228,344                   | 200,407              | 181,251            |
| Selling, general and administrative expenses | 178,243                   | 156,535              | 139,725            |
| Depreciation and amortization                | 11,254                    | 9,889                | 7,311              |
| Income from operations                       | 38,847                    | 33,983               | 34,215             |
| Interest expense, net                        | 4,494                     | 6,387                | 4,104              |
| Unusual item: gain on life insurance         | 2,173                     | ---                  | ---                |
| Income before income taxes                   | 36,526                    | 27,596               | 30,111             |
| Income tax provision                         | 10,752                    | 11,206               | 12,237             |
| Net income                                   | \$ 25,774                 | \$ 16,390            | \$ 17,874          |
| Net income per share - basic                 | \$ 2.92                   | \$ 1.87              | \$ 2.04            |
| Net income per share - assuming dilution     | \$ 2.85                   | \$ 1.87              | \$ 2.02            |

The accompanying notes are an integral part of this statement.

# CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

|                                                                                                                                                     | December 29,<br>2001 | December 30,<br>2000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                       |                      |                      |
| Current assets:                                                                                                                                     |                      |                      |
| Cash and cash equivalents                                                                                                                           | \$ 8,927             | \$ 9,145             |
| Accounts receivable, net                                                                                                                            | 6,516                | 7,683                |
| Inventories                                                                                                                                         | 221,979              | 222,535              |
| Prepaid expenses and other current assets                                                                                                           | 14,540               | 7,870                |
| Total current assets                                                                                                                                | <u>251,962</u>       | <u>247,233</u>       |
| Land                                                                                                                                                | 6,365                | 6,449                |
| Buildings and improvements                                                                                                                          | 72,682               | 67,985               |
| Machinery and equipment                                                                                                                             | 53,250               | 49,304               |
| Construction in progress                                                                                                                            | 5,699                | 1,605                |
|                                                                                                                                                     | <u>137,996</u>       | <u>125,343</u>       |
| Accumulated depreciation and amortization                                                                                                           | (56,008)             | (44,855)             |
| Property and equipment, net                                                                                                                         | <u>81,988</u>        | <u>80,488</u>        |
| Deferred income taxes                                                                                                                               | 2,741                | 1,112                |
| Other assets                                                                                                                                        | 1,791                | 3,463                |
| Total assets                                                                                                                                        | <u>\$ 338,482</u>    | <u>\$ 332,296</u>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                         |                      |                      |
| Current liabilities:                                                                                                                                |                      |                      |
| Accounts payable                                                                                                                                    | \$ 80,974            | \$ 70,294            |
| Accrued expenses                                                                                                                                    | 42,943               | 33,929               |
| Current maturities of long-term debt                                                                                                                | 2,142                | 3,145                |
| Current portion of capital lease obligations                                                                                                        | 309                  | 279                  |
| Income taxes currently payable                                                                                                                      | 3,111                | 1,643                |
| Deferred income taxes                                                                                                                               | 174                  | 4,212                |
| Total current liabilities                                                                                                                           | <u>129,653</u>       | <u>113,502</u>       |
| Revolving credit loan                                                                                                                               | 15,117               | 50,007               |
| Other long-term debt                                                                                                                                | 5,537                | 10,131               |
| Capital lease obligations                                                                                                                           | 2,503                | 2,812                |
| Other long-term liabilities                                                                                                                         | 4,376                | 808                  |
| Total liabilities                                                                                                                                   | <u>157,186</u>       | <u>177,260</u>       |
| Commitments and contingencies                                                                                                                       |                      |                      |
| Stockholders' equity:                                                                                                                               |                      |                      |
| Common stock, 100,000,000 shares authorized; \$.008 par value; 8,937,651 and 8,792,527 shares issued and outstanding in 2001 and 2000, respectively | 71                   | 70                   |
| Additional paid-in capital                                                                                                                          | 44,916               | 43,009               |
| Retained earnings                                                                                                                                   | 137,731              | 111,957              |
| Accumulated other comprehensive loss, net                                                                                                           | (1,422)              | --                   |
| Total stockholders' equity                                                                                                                          | <u>181,296</u>       | <u>155,036</u>       |
| Total liabilities and stockholders' equity                                                                                                          | <u>\$ 338,482</u>    | <u>\$ 332,296</u>    |

The accompanying notes are an integral part of this statement.



# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands)

|                                                                                | <u>Common<br/>Stock</u> | <u>Additional<br/>Paid-in<br/>Capital</u> | <u>Retained<br/>Earnings</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</u> | <u>Total<br/>Stockholders'<br/>Equity</u> |
|--------------------------------------------------------------------------------|-------------------------|-------------------------------------------|------------------------------|---------------------------------------------------------|-------------------------------------------|
| Stockholders' equity at<br>December 26, 1998                                   | \$ 70                   | \$ 42,213                                 | \$ 77,693                    | \$ 0                                                    | \$ 119,976                                |
| Issuance of common stock under employee<br>stock purchase plan (13,752 shares) |                         | 298                                       |                              |                                                         | 298                                       |
| Exercise of stock options (7,249 shares)                                       |                         | 157                                       |                              |                                                         | 157                                       |
| Net income                                                                     |                         |                                           | 17,874                       |                                                         | 17,874                                    |
| Stockholders' equity at<br>January 1, 2000                                     | 70                      | 42,668                                    | 95,567                       | 0                                                       | 138,305                                   |
| Issuance of common stock under employee<br>stock purchase plan (23,421 shares) |                         | 341                                       |                              |                                                         | 341                                       |
| Net income                                                                     |                         |                                           | 16,390                       |                                                         | 16,390                                    |
| Stockholders' equity at<br>December 30, 2000                                   | 70                      | 43,009                                    | 111,957                      | 0                                                       | 155,036                                   |
| Issuance of common stock under employee<br>stock purchase plan (34,715 shares) |                         | 380                                       |                              |                                                         | 380                                       |
| Exercise of stock options (66,439 shares)                                      | 1                       | 1,235                                     |                              |                                                         | 1,236                                     |
| Tax benefit on disqualifying disposition<br>of stock options                   |                         | 292                                       |                              |                                                         | 292                                       |
| Net income (Note 7)                                                            |                         |                                           | 25,774                       |                                                         | 25,774                                    |
| Other comprehensive loss related to<br>interest rate swap agreement, net       |                         |                                           |                              | (1,422)                                                 | (1,422)                                   |
| Comprehensive income                                                           |                         |                                           |                              |                                                         | 24,352                                    |
| Stockholders' equity at<br>December 29, 2001                                   | <u>\$ 71</u>            | <u>\$ 44,916</u>                          | <u>\$ 137,731</u>            | <u>\$ (1,422)</u>                                       | <u>\$ 181,296</u>                         |

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

|                                                                                             | For the fiscal year ended |                      |                    |
|---------------------------------------------------------------------------------------------|---------------------------|----------------------|--------------------|
|                                                                                             | December 29,<br>2001      | December 30,<br>2000 | January 1,<br>2000 |
| Cash flows from operating activities:                                                       |                           |                      |                    |
| Net income                                                                                  | \$ 25,774                 | \$ 16,390            | \$ 17,874          |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |                      |                    |
| Depreciation and amortization                                                               | 11,254                    | 9,889                | 7,311              |
| Gain on disposition of property and equipment                                               | (60)                      | (241)                | (104)              |
| Gain on proceeds from life insurance                                                        | (2,173)                   | -                    | -                  |
| Deferred income taxes                                                                       | (5,667)                   | (3,258)              | (180)              |
| Change in assets and liabilities:                                                           |                           |                      |                    |
| Accounts receivable                                                                         | 1,167                     | (918)                | (1,187)            |
| Inventory                                                                                   | 556                       | (15,210)             | (35,576)           |
| Prepaid expenses and other current assets                                                   | (6,670)                   | (3,025)              | 1,456              |
| Accounts payable                                                                            | 10,680                    | 10,530               | (1,136)            |
| Accrued expenses                                                                            | 9,014                     | (108)                | 4,427              |
| Income taxes currently payable                                                              | 1,468                     | (2,492)              | 1                  |
| Other                                                                                       | 1,462                     | (1,384)              | (605)              |
| Net cash provided by (used in) operating activities                                         | 46,805                    | 10,173               | (7,719)            |
| Cash flows from investing activities:                                                       |                           |                      |                    |
| Capital expenditures                                                                        | (13,569)                  | (17,358)             | (20,368)           |
| Proceeds from sale of property and equipment                                                | 1,376                     | 634                  | 816                |
| Liquidation of life insurance policies                                                      | 1,499                     | -                    | -                  |
| Net cash used in investing activities                                                       | (10,694)                  | (16,724)             | (19,552)           |
| Cash flows from financing activities:                                                       |                           |                      |                    |
| Net borrowings (repayment) under revolving credit agreement                                 | (34,890)                  | 11,881               | 19,126             |
| Repayment of long term debt                                                                 | (5,597)                   | (3,049)              | (2,960)            |
| Principal payments under capital lease obligations                                          | (279)                     | (468)                | (560)              |
| Net proceeds from life insurance death benefit                                              | 2,529                     | -                    | -                  |
| Net proceeds from issuance of common stock                                                  | 1,908                     | 341                  | 455                |
| Net cash provided by (used in) financing activities                                         | (36,329)                  | 8,705                | 16,061             |
| Net increase (decrease) in cash                                                             | (218)                     | 2,154                | (11,210)           |
| Cash and cash equivalents at beginning of year                                              | 9,145                     | 6,991                | 18,201             |
| Cash and cash equivalents at end of year                                                    | \$ 8,927                  | \$ 9,145             | \$ 6,991           |
| Supplemental disclosures of cash flow information:                                          |                           |                      |                    |
| Cash paid during the year for:                                                              |                           |                      |                    |
| Interest                                                                                    | \$ 4,338                  | \$ 6,423             | \$ 4,026           |
| Income taxes                                                                                | 13,770                    | 16,324               | 12,937             |
| Non-cash investing and financing activities:                                                |                           |                      |                    |
| Capital lease-buildings                                                                     | -                         | -                    | 1,581              |

The accompanying notes are an integral part of this statement.

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## Note 1 - Significant Accounting Policies:

### *Nature of Business*

Tractor Supply Company is a specialty retailer, which supplies the daily farm and ranch maintenance needs of its target customers: hobby, part-time and full-time farmers and ranchers, as well as suburban customers, contractors and tradesmen. The Company, which was founded in 1938, operated 323 retail farm stores in 28 states as of December 29, 2001.

### *Fiscal Year*

The Company's fiscal year ends on the Saturday closest to December 31. Fiscal years 2001 and 2000 consist of 52 weeks, while fiscal year 1999 consists of 53 weeks.

### *Principles of Consolidation*

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

### *Management Estimates*

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

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

#### **Inventory Valuation**

The Company identifies potentially excess and slow-moving inventory by evaluating turn rates and overall inventory levels. Excess quantities are identified through the application of benchmark turn targets and historical sales experience. Further, exposure to inadequate realization of carrying value is identified through analysis of gross margin achievement and markdown experience, in combination with all merchandising initiatives.

#### **Inventory Shrinkage**

The Company estimates its expected shrinkage of inventory between physical inventory counts by assessing the chain-wide average shrinkage experience rate, applied to the related periods' sales volume. Such assessments are updated on a regular basis for the most recent individual store experiences.

#### **Sales Returns**

The Company generally honors customer refunds within 30 days of the original purchase, with the supporting receipt. The Company estimates its reserve for likely customer returns based on the average refund experience in relation to sales for the related period. Due to the seasonality of the Company's sales, the refund experience can vary, depending on the fiscal quarter of measurement.

### *Revenue Recognition*

The Company recognizes revenue at the time of customer purchase. A provision is made for expected refunds attributed to customer returns.

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## *Cash Flows*

The Company considers temporary cash investments, with a maturity of three months or less when purchased, to be cash equivalents.

## *Fair Value of Financial Instruments*

The Company has cash and cash equivalents, short-term trade receivables and payables and long-term debt instruments, including capital leases. The carrying values of cash and cash equivalents, trade receivables and trade payables equal current fair value. The terms of the Company's revolving credit agreement and term loan agreement include variable interest rates, which approximate current market rates. (Notes 2 and 3)

## *Derivative Instruments and Hedging Activities*

The Company has entered into an interest rate swap agreement as a means of managing its interest rate exposure. This agreement has the effect of converting certain of the Company's variable rate obligations to fixed rate obligations. Net amounts paid or received are reflected as adjustments to interest expense.

On December 31, 2000, the Company adopted Statements of Financial Accounting Standards Nos. 133, 137, and 138 (collectively "SFAS 133") pertaining to the accounting for derivatives and hedging activities. SFAS 133 requires the Company to recognize all derivative instruments in the balance sheet at fair value. The adoption of SFAS 133 impacts the accounting for the Company's interest rate swap agreement. The Company's interest rate swap agreement is designated as a cash flow hedge.

Upon adoption of SFAS 133, the Company recorded the fair value of the interest rate swap in its consolidated balance sheet. Thereafter, the Company adjusts the carrying value of the interest rate swap to reflect its current fair value. The related gain or loss on the swap is deferred in stockholders' equity (as a component of comprehensive income). The deferred gain or loss is recognized in income in the period in which the related interest rate payments being hedged have been recognized as expense. However, to the extent that the change in value of an interest rate swap contract does not perfectly offset the change in the interest rate payments being hedged, that ineffective portion is immediately recognized as expense.

## *Inventories*

Inventories consist primarily of farm maintenance and animal and pet products, general maintenance products, lawn and garden products, light truck equipment and work clothing. All inventories are stated at the lower of cost or market, with cost being determined on the last-in, first-out (LIFO) method. If the first-in, first-out (FIFO) method of accounting for inventory had been used, inventories would have been approximately \$6,631,000 and \$5,056,000 higher than reported at December 29, 2001 and December 30, 2000, respectively.

## *Freight Costs*

The Company incurs various types of transportation and delivery costs in connection with inventory purchases and distribution. Such costs are included as a component of the overall cost of merchandise.

## *Impairment of Long-Lived Assets*

The Company reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. An impairment is recognized when the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. Accordingly, when the Company commits to relocate or close a store, the estimated unrecoverable costs are charged to operating expenses. Such costs include the estimated loss on the sale of land and buildings, the book value of abandoned fixtures, equipment and leasehold improvements, and a provision for the present value of future lease obligations, less estimated sub-lease income.

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## *Property and Equipment*

The Company owns the land and buildings for 65 of its stores. Property and equipment are carried at cost. The Company's buildings, furniture, fixtures, equipment and computer software are depreciated using the straight-line method over the estimated useful lives of the assets. Improvements to leased premises are amortized using the straight-line method over the life of the lease or the useful life of the improvement, whichever is shorter. The Company's property and equipment is depreciated using the following estimated useful lives:

|                                  | Life          |
|----------------------------------|---------------|
| Buildings                        | 30 - 35 years |
| Leasehold improvements           | 5 - 15 years  |
| Furniture, fixture and equipment | 5 - 10 years  |
| Computer software                | 3 - 5 years   |

## *Store Opening Costs*

Non-capital expenditures incurred in connection with opening new stores are expensed as incurred.

## *Advertising Costs*

Advertising costs consist of expenses incurred in connection with newspaper circulars, television and radio, as well as newspaper advertisements and other promotions. Expenses incurred are charged to operations at the time the related advertising first takes place. Advertising expenses, net of vendor-provided funding, for fiscal 2001, 2000 and 1999 were approximately \$5,012,000, \$8,063,000, and, \$8,806,000, respectively.

## *Income Taxes*

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

## *Excess of Fair Value of Assets Acquired Over Cost*

The unallocated excess of fair value of assets acquired over cost (negative goodwill) of approximately \$3,590,000 is being amortized over 20 years on a straight-line basis.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill amortization ceases when the new standard is adopted. The new rule also requires an initial goodwill impairment assessment in the year of adoption and annual impairment tests thereafter. The Company adopted this Statement effective the first day of fiscal 2002. At December 29, 2001 the Company had unamortized negative goodwill of \$175,000. Application of this Statement will result in the write-off of the remaining negative goodwill, increasing income before income taxes by \$175,000 in the first quarter of fiscal 2002.

## *Stock-based Compensation Plans*

As allowed by Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," the Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB No.25"), "Accounting for Stock Issued to Employees." Under APB No. 25, compensation expense would be recorded on the date of grant if the current market price of the underlying stock exceeded the exercise price. The Company has adopted the disclosure requirements of SFAS 123.

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## *Net Income Per Share*

Statement of Financial Accounting Standards No. 128 - Earnings per Share ("SFAS 128") requires companies with complex capital structures that have publicly held common stock or common stock equivalents to present both basic and diluted earning per share ("EPS") on the face of the income statement. As provided by SFAS 128, basic EPS is calculated as income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted EPS is calculated using the treasury stock method for options and warrants (Note 8).

## **Note 2 - Revolving Credit Agreement:**

In November 2000, the Company entered into a three-year unsecured senior revolving credit facility with Bank of America, N.A., as agent for a lender group, (the "Senior Credit Facility") whereby the Company may borrow up to \$125 million. This credit facility was used to refinance all outstanding indebtedness under the existing \$75 million revolving credit agreement. Of the total \$125 million commitment at December 29, 2001, \$3.9 million has been utilized for the issuance of letters of credit relating to insurance policies and import merchandise. The outstanding borrowings under this Senior Credit Facility totaled \$15.1 million at December 29, 2001. The balance of funds available under the Senior Credit Facility may be utilized for borrowings or other letters of credit. All borrowings under the Senior Credit Facility bear interest, at the Company's option, at either the base rate of the agent (4.75% at December 29, 2001) or the LIBOR rate (1.88% at December 29, 2001) plus an additional amount ranging from .75% to 1.5% per annum, adjusted quarterly based on Company performance (1.00% at December 29, 2001). The Company is also required to pay, quarterly in arrears, a commitment fee ranging from .20% to .35% per annum, adjusted quarterly based on Company performance, on the average daily unused portion of the credit line. There are no compensating balance requirements associated with the Senior Credit Facility.

In October 2001, the Company extended the Senior Credit Facility by one year, thus setting the maturity to November 2004.

The Senior Credit Facility contains certain restrictions regarding additional indebtedness; capital expenditures; business operations; guarantees; investments; mergers, consolidations and sales of assets; transactions with subsidiaries or affiliates; and liens. In addition, the Company must comply with certain quarterly restrictions (based on a rolling four-quarters basis) regarding net worth, leverage ratio, fixed charge coverage and current ratio requirements. The Company was in compliance with all covenants at December 29, 2001.

In November 1999, the Company entered into an amendment (the "Third Amendment") to its then existing revolving credit agreement, whereby the Company (i) increased the maximum total commitments available thereunder from \$60 million to \$75 million. There were no changes to any of the other material terms and conditions of the revolving credit agreement as a result of the Third Amendment.

## **Note 3 - Other Long-term Debt:**

In June 1998, the Company entered into a loan agreement (the "Loan Agreement") and term note (the "Term Note") pursuant to which the Company borrowed \$15 million. Until amended as discussed below, the Term Note carried interest at the rate of 6.75% per annum until its maturity in June 2005. The Term Note requires monthly payments equal to \$178,572, plus accrued interest, through June 2005. There are no compensating balance requirements associated with the Loan Agreement. The Loan Agreement is unsecured. In November 2000, in connection with the closing of the Senior Credit Facility, the Company amended the Loan Agreement and Term Note. The terms of the agreement were amended to provide that the existing indebtedness would both mature and bear interest under the same provision as that in the Senior Credit Facility and the restrictive covenants would be modified to be the same as those in the Senior Credit Facility (Note 2). The Company was in compliance with all covenants at December 29, 2001.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In April 1988, the Company issued notes (the "Mortgage Notes") pursuant to a Note Agreement, which was amended in April 1991, February 1992 and July 1993 (the "Mortgage Loan Agreement"). The Mortgage Notes bear interest at a minimum 10.32% rate until their maturity in January 2004. The Mortgage Notes require monthly payments, including interest, of approximately \$109,000 through January 2004. As of December 30, 2000 the Mortgage Notes remaining balance was approximately \$3,456,000, of which \$1,004,000 was included in current maturities of long-term debt. In August 2001, the Company prepaid the remaining outstanding balance on the Mortgage Notes.

## Note 4 - Leases:

The Company leases the majority of its office, warehouse/distribution and retail space, transportation equipment and other equipment under various noncancelable operating leases. The leases have varying terms and expire at various dates through October 2018. The store leases typically have initial terms of between 10 and 15 years, with one to three renewal periods of five years each, exercisable at the Company's option. Generally, most of the leases require the Company to pay taxes, insurance and maintenance costs.

Total rent expense for fiscal 2001, 2000 and 1999 was approximately \$36,733,000, \$31,620,000, and \$25,453,000, respectively.

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

|                                              | <b>Capital<br/>Leases</b> | <b>Operating<br/>Leases</b> |
|----------------------------------------------|---------------------------|-----------------------------|
| 2002                                         | \$ 581                    | \$ 30,675                   |
| 2003                                         | 579                       | 29,512                      |
| 2004                                         | 536                       | 28,024                      |
| 2005                                         | 497                       | 27,090                      |
| 2006                                         | 166                       | 25,638                      |
| Thereafter                                   | <u>3,691</u>              | <u>135,669</u>              |
| Total minimum lease payments                 | 6,050                     | <u>\$ 276,608</u>           |
| Amount representing interest                 | (3,238)                   |                             |
| Present values of net minimum lease payments | <u>2,812</u>              |                             |
| Less: current portion                        | <u>(309)</u>              |                             |
| Long-term capital lease obligations          | <u>\$ 2,503</u>           |                             |

## Note 5- Income Taxes:

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

|                       | <b>2001</b>      | <b>2000</b>      | <b>1999</b>      |
|-----------------------|------------------|------------------|------------------|
| Current tax expense:  |                  |                  |                  |
| Federal               | \$ 13,159        | \$ 11,200        | \$ 9,774         |
| State                 | <u>2,358</u>     | <u>3,264</u>     | <u>2,643</u>     |
| Total current         | <u>15,517</u>    | <u>14,464</u>    | <u>12,417</u>    |
| Deferred tax expense: |                  |                  |                  |
| Federal               | (4,154)          | (2,337)          | (172)            |
| State                 | <u>(611)</u>     | <u>(921)</u>     | <u>(8)</u>       |
| Total deferred        | <u>(4,765)</u>   | <u>(3,258)</u>   | <u>(180)</u>     |
| Total provision       | <u>\$ 10,752</u> | <u>\$ 11,206</u> | <u>\$ 12,237</u> |



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

|                                           | <u>December 29,<br/>2001</u> | <u>December 30,<br/>2000</u> |
|-------------------------------------------|------------------------------|------------------------------|
| Current tax assets:                       |                              |                              |
| Inventory valuation                       | \$ 3,857                     | \$ 4,288                     |
| Other                                     | <u>3,222</u>                 | <u>2,779</u>                 |
|                                           | <u>7,079</u>                 | <u>7,067</u>                 |
| Current tax liabilities:                  |                              |                              |
| Inventory basis difference                | 6,557                        | 10,565                       |
| Other                                     | <u>696</u>                   | <u>714</u>                   |
|                                           | <u>7,253</u>                 | <u>11,279</u>                |
| Net current tax liabilities               | <u>\$ 174</u>                | <u>\$ 4,212</u>              |
| Non-current tax assets:                   |                              |                              |
| Capital lease obligation basis difference | \$ 1,206                     | \$ 1,368                     |
| Fixed assets basis difference             | 904                          | 170                          |
| Interest rate swap                        | 902                          | ---                          |
| Other                                     | <u>2,826</u>                 | <u>2,317</u>                 |
|                                           | <u>5,838</u>                 | <u>3,855</u>                 |
| Non-current tax liabilities:              |                              |                              |
| Depreciation                              | 2,345                        | 1,868                        |
| Capital lease assets basis difference     | <u>752</u>                   | <u>875</u>                   |
|                                           | <u>3,097</u>                 | <u>2,743</u>                 |
| Net non-current tax assets                | <u>\$ 2,741</u>              | <u>\$ 1,112</u>              |

Management has evaluated the need for a valuation allowance for all, or a portion of the deferred tax assets and believes that all of the deferred tax assets will more likely than not be realized through the future earnings of the Company.

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

|                                                | <u>2001</u>      | <u>2000</u>      | <u>1999</u>      |
|------------------------------------------------|------------------|------------------|------------------|
| Tax provision at statutory rate                | \$ 12,784        | \$ 9,659         | \$ 10,539        |
| Tax effect of:                                 |                  |                  |                  |
| State income taxes, net of federal tax benefit | 1,369            | 1,577            | 1,721            |
| Life insurance proceeds                        | (926)            | -                | -                |
| Previously accrued income taxes                | (2,500)          | -                | -                |
| Amortization of negative goodwill              | (63)             | (73)             | (63)             |
| Other                                          | <u>88</u>        | <u>43</u>        | <u>40</u>        |
|                                                | <u>\$ 10,752</u> | <u>\$ 11,206</u> | <u>\$ 12,237</u> |

The Company reevaluated its tax exposure during the quarter ended December 29, 2001 and, as a result of the favorable resolution of certain tax issues, along with the closing of open tax years, reduced previously accrued income tax liabilities by \$2.5 million.



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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## Note 6 - Capital Stock:

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

## Note 7 - Comprehensive Income:

Comprehensive income includes net income and changes in the fair value of the Company's interest rate swap agreement, which qualifies for hedge accounting. Comprehensive income totaled \$24.4 million for fiscal 2001 compared to \$16.4 million for fiscal 2000. The difference between net income and comprehensive income for fiscal 2001 is the result of a \$1.4 million unrealized loss (net of estimated tax benefit of \$0.9 million) on the swap agreement recognized in accordance with SFAS 133. As of December 29, 2001, the Company expects to reclassify approximately \$0.9 million of net losses on interest rate swaps from accumulated other comprehensive loss to earnings over the next twelve months.

## Note 8 - Net Income Per Share:

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

|                                     | 2001             |               |                         |
|-------------------------------------|------------------|---------------|-------------------------|
|                                     | <u>Income</u>    | <u>Shares</u> | <u>Per Share Amount</u> |
| <i>Basic net income per share:</i>  |                  |               |                         |
| Net income                          | \$ 25,774        | 8,824         | <u>\$ 2.92</u>          |
| Dilutive stock options outstanding  |                  | 217           |                         |
| <i>Diluted net income per share</i> | <u>\$ 25,774</u> | <u>9,041</u>  | <u>\$ 2.85</u>          |
|                                     |                  |               |                         |
|                                     | 2000             |               |                         |
|                                     | <u>Income</u>    | <u>Shares</u> | <u>Per Share Amount</u> |
| <i>Basic net income per share:</i>  |                  |               |                         |
| Net income                          | \$ 16,390        | 8,782         | <u>\$ 1.87</u>          |
| Dilutive stock options outstanding  |                  | 0             |                         |
| <i>Diluted net income per share</i> | <u>\$ 16,390</u> | <u>8,782</u>  | <u>\$ 1.87</u>          |
|                                     |                  |               |                         |
|                                     | 1999             |               |                         |
|                                     | <u>Income</u>    | <u>Shares</u> | <u>Per Share Amount</u> |
| <i>Basic net income per share:</i>  |                  |               |                         |
| Net income                          | \$ 17,874        | 8,761         | <u>\$ 2.04</u>          |
| Dilutive stock options outstanding  |                  | 75            |                         |
| <i>Diluted net income per share</i> | <u>\$ 17,874</u> | <u>8,836</u>  | <u>\$ 2.02</u>          |

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## **Note 9 - Related Party Transactions:**

In 1986, the Company entered into capitalized sale-leaseback transactions with certain officers of the Company for seven of its stores. The Company sold, leased back and provided the financing for these properties at estimated fair values totaling \$2,575,000. The related gains arising from the sale of these properties have been deferred and are being amortized on a straight-line basis over the terms of the related leases. Properties under capital leases acquired through sale-leaseback transactions have been reduced by the related deferred gains on the properties and are classified with property and equipment. The leases have basic terms of 20 years with options to renew for two successive five-year terms. The Company has an option to purchase the leased properties after December 31, 1995. Rent payments under these leases were approximately \$361,000 in fiscal 2001, \$393,000 in 2000 and \$425,000 in 1999. All the officers have repaid their outstanding obligations under these notes to the Company. In June 2000, the Company closed operations at one of these seven facilities. In December 2000, the Company paid \$200,000 to terminate the lease on the facility. The balance of the remaining six capitalized lease obligations, included in total capital lease obligations at December 29, 2001, was \$869,000.

Prior to fiscal 2001, the Company leased its management headquarters from a partnership in which certain stockholders of the Company are general partners. In December 2000, the management headquarters was sold to an unrelated third party. The remaining lease term is six years, with the Company having exercised both remaining five-year renewal options in fiscal 1996, with monthly rent set at \$35,000 and \$39,000 per month, respectively. Rent payments made to related parties under this lease were \$385,000 in fiscal 2000 and \$420,000 in fiscal 1999.

## **Note 10 - Retirement Benefit Plan:**

The Company has a defined contribution benefit plan, the Tractor Supply Company Restated 401(k) Retirement Plan (the "Plan"), which provides retirement and other benefits for the Company's employees. Employees become eligible for participation at age 21 and upon completion of 12 consecutive months of employment and 1,000 hours or more of service. The Company matches 100% of the employee's elective contributions up to 3% of the employee's compensation plus 50% of the employee's elective contributions from 3% to 7% of the employee's compensation. In no event shall the total Company match made on behalf of the employee exceed 5% of the employee's compensation in any Plan year. Through January 1, 2000, the employer's contribution is vested 20% each year starting at two years of service. Effective January 1, 2000 the Company amended the Plan ("Amendment No. 2"). In accordance with Amendment No. 2, the Company matches 100% of the employee's elective contributions up to 3% of the employee's compensation plus 50% of the employee's elective contributions from 3% to 6% of the employee's compensation. In no event shall the total Company match made on behalf of the employee exceed 4.5% of the employee's compensation. Effective in fiscal 2000, all employer contributions are immediately 100% vested. Company contributions to the Plan during fiscal 2001, 2000 and 1999 were approximately \$1,022,000 (net of applied forfeitures of \$98,000), \$521,000 (net of applied forfeitures of \$677,000), and \$969,000, respectively.

## **Note 11 - Stock-based Compensation Plans:**

### *Fixed Stock Option Plan*

The Company has stock option plans for officers, directors (including non-employee directors) and key employees which reserves 2,000,000 shares of common stock for future issuance. According to the terms of the plans, the per share exercise price of options granted shall not be less than the fair market value of the stock on the date of grant and such options will expire no later than ten years from the date of grant. In the case of a stockholder owning more than 10% of the outstanding voting stock of the Company, the exercise price of an incentive stock option may not be less than 110% of the fair market value of the stock on the date of grant and such options will expire no later than five years from the date of grant. Also, the aggregate fair market value of the stock with respect to which incentive stock options are exercisable on a tax deferred basis for the first time by an individual in any calendar year may not exceed \$100,000. Options granted generally vest one-third each year beginning on the third anniversary date of the grant and expire after ten years, provided, however, that options granted to non-employee directors vest one-third each year beginning on the first anniversary of the grant.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Plan activity is summarized as follows:

|                                  | Number of<br>Shares | Weighted Average<br>Exercise Price |
|----------------------------------|---------------------|------------------------------------|
| Outstanding at December 26, 1998 | 514,750             | \$19.21                            |
| Exercised                        | (7,249)             | \$21.66                            |
| Granted                          | 218,000             | \$25.58                            |
| Canceled                         | <u>(124,001)</u>    | \$20.91                            |
| Outstanding at January 1, 2000   | 601,500             | \$21.14                            |
| Granted                          | 371,000             | \$14.13                            |
| Canceled                         | <u>(135,667)</u>    | \$19.02                            |
| Outstanding at December 30, 2000 | 836,833             | \$18.38                            |
| Exercised                        | (66,439)            | \$18.60                            |
| Granted                          | 396,000             | \$13.43                            |
| Canceled                         | <u>(119,683)</u>    | \$18.04                            |
| Outstanding at December 29, 2001 | <u>1,046,711</u>    | \$16.53                            |

The following table summarizes information concerning currently outstanding and exercisable options:

| Year | Range of<br>Exercise Prices | Number<br>Outstanding | Options Outstanding                                     |                                          | Options<br>Exercisable |
|------|-----------------------------|-----------------------|---------------------------------------------------------|------------------------------------------|------------------------|
|      |                             |                       | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Weighted<br>Average<br>Exercise<br>Price |                        |
| 1994 | \$21.50 - \$27.00           | 11,000                | 2.19                                                    | \$22.00                                  | 11,000                 |
| 1995 | \$21.31 - \$22.13           | 18,000                | 3.10                                                    | \$22.07                                  | 18,000                 |
| 1996 | \$21.38 - \$25.13           | 41,083                | 4.07                                                    | \$21.38                                  | 41,083                 |
| 1997 | \$17.75 - \$20.00           | 145,394               | 5.47                                                    | \$18.52                                  | 100,384                |
| 1998 | \$14.44 - \$24.31           | 14,834                | 6.19                                                    | \$19.43                                  | 6,235                  |
| 1999 | \$25.81 - \$26.75           | 134,000               | 7.06                                                    | \$25.84                                  | 7,705                  |
| 2000 | \$14.94 - \$15.16           | 264,000               | 8.09                                                    | \$14.94                                  | 3,630                  |
| 2000 | \$8.95                      | 50,000                | 8.84                                                    | \$ 8.95                                  | -                      |
| 2001 | \$13.43                     | 368,400               | 9.08                                                    | \$13.43                                  | -                      |
|      |                             | <u>1,046,711</u>      |                                                         |                                          | <u>188,037</u>         |

Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed by FASB Statement No. 123, the Company's proforma net income and net income per share, for fiscal 2001, 2000 and 1999, would have been as follows (in thousands, except per share amounts):

|                                |             | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|--------------------------------|-------------|-------------|-------------|-------------|
| Net income                     | As reported | \$ 25,774   | \$ 16,390   | \$ 17,874   |
|                                | Proforma    | \$ 24,852   | \$ 15,667   | \$ 17,179   |
| Net income per share - basic   | As reported | \$ 2.92     | \$ 1.87     | \$ 2.04     |
|                                | Proforma    | \$ 2.82     | \$ 1.79     | \$ 1.96     |
| Net income per share - diluted | As reported | \$ 2.85     | \$ 1.87     | \$ 2.02     |
|                                | Proforma    | \$ 2.75     | \$ 1.79     | \$ 1.94     |

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions.

|                               | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|-------------------------------|-------------|-------------|-------------|
| Expected volatility           | 43.8 %      | 39.8 %      | 37.8 %      |
| Risk-free interest rate       | 5.1 %       | 5.5 %       | 6.5 %       |
| Average expected life (years) | 7.5         | 7.25        | 7.5         |
| Dividend yield                | 0 %         | 0 %         | 0 %         |
| Weighted average fair value   | \$ 7.43     | \$ 7.11     | \$ 12.95    |

## *Employee Stock Purchase Plan*

The Company provides an Associate Stock Purchase Plan (the "ASPP") whereby eligible employees of the Company have the opportunity to purchase, through payroll deductions, shares of common stock of the Company at a 15% discount. Pursuant to the terms of the ASPP, the Company issued 34,715, 23,421 and 13,752 shares of common stock in fiscal 2001, 2000 and 1999, respectively.

## **Note 12 - Gain on Proceeds from Life Insurance:**

In April 2001, a former executive of the Company, on whom the Company carried a life insurance policy, passed away. As a result of the related coverage, the Company realized a \$2.1 million gain on the benefit proceeds.

## **Note 13 - Litigation:**

The Company is involved in various litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect on the Company's consolidated financial position or results of operations. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

## **Note 14 - Subsequent Event:**

On December 31, 2001, the Company, through a recently formed joint venture with Great American Group, Gordon Brothers Retail Partners, LLC and DJM Asset Management LLC, was the successful bidder at a liquidation bankruptcy auction for the buildings, improvements, fixtures and lease rights of certain retail stores formerly operated by Quality Stores, Inc., a debtor and debtor in possession under Chapter 11 of the United States Bankruptcy Code. The bid, which has been approved by the United States Bankruptcy Court for the Western District of Michigan, provides for the Joint Venture to act as exclusive agent for the disposition of substantially all of the store assets located in New York, Pennsylvania, Virginia, Maryland, West Virginia, Delaware, Kentucky, Ohio, Indiana and Michigan. The bid totaled \$34 million and was funded entirely through the Senior Credit Facility.

Under its agreement with the other joint venture partners, the Company has agreed to purchase the buildings for 24 retail stores, to assume the building lease rights for 76 additional retail stores and to purchase the related equipment, furniture and fixtures. After a complete liquidation of the existing inventory by other members of the joint venture, the Company expects to reopen 87 retail stores in its own format by the middle of fiscal 2002, to relocate existing stores in nine other locations and to sell four of the properties.

# BOARD OF DIRECTORS AND OFFICERS

## Board of Directors

**Joseph H. Scarlett, Jr.**  
Chairman of the Board and Chief Executive Officer  
Tractor Supply Company

**Thomas O. Flood**  
Retired Senior Vice President  
Tractor Supply Company

**Joseph D. Maxwell (3)**  
Retired Vice President  
Tractor Supply Company

**S.P. Braud (1)\*(2) (3) (4)**  
Retired Chief Financial Officer  
Service Merchandise Company, Inc. and  
President and Director, Braud Design/Build, Inc.

**Gerard E. Jones (1) (2) (3)\***  
Of Counsel to  
Shipman & Goodwin LLP

**Sam K. Reed (1) (2)\*(4)\***  
Vice Chairman and Director  
Kellogg Company

**Joseph M. Rodgers (1) (2) (4)**  
Chairman of the Board  
The JMR Group, an investment firm, and  
former U.S. Ambassador to France

*(1) Audit Committee*

*(2) Compensation Committee*

*\* Committee Chairman*

*(3) Nominating Committee*

*(4) Corporate Governance*

*Committee*



*Tractor Supply Senior Executives: Jerry Brase, Stan Ruta, Jim Wright, Joe Scarlett and Cal Massmann.*

## Officers

**Joseph H. Scarlett, Jr.**  
Chairman of the Board and Chief Executive Officer

**James F. Wright**  
President and Chief Operating Officer

**Gerald W. Brase**  
Senior Vice President-Merchandising

**Calvin B. Massmann**  
Senior Vice President-  
Chief Financial Officer and Treasurer

**Stanley L. Ruta**  
Senior Vice President-Store Operations

**John W. Atkins**  
Vice President-Information Technology

**Blake A. Fohl**  
Vice President-Marketing

**Mark D. Gillman**  
Vice President-Store Operations

**Lawrence Goldberg**  
Vice President-Logistics

**Stephen E. Hull**  
Vice President-Real Estate

**David C. Lewis**  
Vice President-Controller and  
Corporate Secretary

**Gary M. Magoni**  
Vice President-Store Operations

**Thomas P. Parrish**  
Vice President-Divisional Merchandise Manager

**Kimberly D. Vella**  
Vice President-Human Resources



# CORPORATE INFORMATION

**Corporate Address:**

Tractor Supply Company  
320 Plus Park Boulevard  
Nashville, Tennessee 37217  
(615) 366-4600

**Transfer Agent and Registrar**

EquiServe Trust Company, N.A.  
P.O. Box 43010  
Providence, RI 02940-3010  
(781) 575-3400

**Independent Auditors**

Ernst & Young LLP  
Bank of America Plaza  
414 Union Street, Suite 2100  
Nashville, Tennessee 37219

**Stock Exchange Listing**

The Nasdaq National Market  
Ticker Symbol: TSCO

**Internet Address:**

[www.tractorsupplyco.com](http://www.tractorsupplyco.com)

**Annual Meeting**

The Annual Meeting of Stockholders will be held at 10:00 a.m., April 18, 2002 at the Company's Store Support Center, 320 Plus Park Boulevard, Nashville, Tennessee, 37217

**Number of Stockholders**

As of January 31, 2002 there were approximately 76 stockholders of record. This number excludes individual stockholders holding stock under nominee security position listings.

**Form 10-K**

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be sent to any stockholder upon written request to the Company.

**Quarterly Stock Price Range**

|                     | <u>High</u> | <u>Low</u> |
|---------------------|-------------|------------|
| <b>Fiscal 2001:</b> |             |            |
| First Quarter       | \$ 14.94    | \$ 8.50    |
| Second Quarter      | \$ 16.45    | \$ 13.50   |
| Third Quarter       | \$ 24.48    | \$ 14.80   |
| Fourth Quarter      | \$ 34.98    | \$ 17.47   |
|                     | <u>High</u> | <u>Low</u> |
| <b>Fiscal 2000:</b> |             |            |
| First Quarter       | \$ 21.00    | \$ 14.63   |
| Second Quarter      | \$ 22.00    | \$ 12.00   |
| Third Quarter       | \$ 17.19    | \$ 9.69    |
| Fourth Quarter      | \$ 11.06    | \$ 6.50    |



*The Tractor Supply Flag Corps prepares to raise "Old Glory" at the Flag Dedication and Ceremony on November 9, 2001.*



# THIS IS TRACTOR SUPPLY COMPANY



Joe Scarlett and senior management burst through a banner during the Vendor Conference to “pump” up the vendor partners.



In July of 2001, President George W. Bush met with representatives of the farming and ranching industry at the Billings, Montana Tractor Supply store.



Tractor Supply stores nationwide showed their support after the tragic events of September 11.



***Whether you  
own one acre  
or 1,000 ---***

## **You ll Keep Humming Our Tune**

Why? Because we've got everything you need to get the job done.

So whether it's farm supplies, pet supplies, horse feed, power equipment, or work clothing, stop by Tractor Supply and see why we're the largest farm and ranch store chain in America.

For more information on Tractor Supply Company, please call us at 615-366-4600, or check out our website at [tractorsupplyco.com](http://tractorsupplyco.com)



***George Strait***



# TRACTOR SUPPLY CO /DE/

## FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 3/28/2002 For Period Ending 12/29/2001

|             |                                                  |
|-------------|--------------------------------------------------|
| Address     | 320 PLUS PARK BLVD<br>NASHVILLE, Tennessee 37217 |
| Telephone   | 615-366-4600                                     |
| CIK         | 0000916365                                       |
| Industry    | Retail (Home Improvement)                        |
| Sector      | Services                                         |
| Fiscal Year | 12/26                                            |



SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)



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

For the fiscal year ended December 29 , 2001

OR



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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-23314

TRACTOR SUPPLY COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Delaware

13-3139732

(State or Other Jurisdiction of  
Incorporation or Organization)

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

320 Plus Park Boulevard, Nashville, Tennessee

37217

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code:

(615) 366-4600

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

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

Common Stock, \$.008 par value

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

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

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 National Market on January 31, 2002, was \$210,523,960. For purposes of this response, the registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of its Common Stock are the affiliates of the registrant.

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

Class ROA\_004220 Outstanding at January 31, 2002 SCDOR\_006654

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Common Stock, \$.008 par value

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8,908,345

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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 18, 2002 are incorporated by reference into Part III of this Form 10-K. Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended December 29, 2001 are incorporated by reference into Parts II and IV of this Form 10-K.

**FORWARD-LOOKING STATEMENTS OR INFORMATION**

This Form 10-K includes certain statements that may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements included or incorporated by reference in this Form 10-K which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), business strategy, expansion and growth of the Company's business and operations and other such matters are forward-looking statements.

All phases of the Company's operations are subject to influences outside its control. Any one, or a combination, of these factors could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, pricing and other competitive factors, the ability to attract, train and retain highly qualified associates, the ability to identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions in general and the seasonality of the Company's business. Many of these factors have previously been identified in filings or statements made by or on behalf of the Company. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

**PART I****Item 1. Business****Overview**

Tractor Supply Company, a Delaware corporation ("TSC" or the "Company"), was founded in 1938 as a catalog mail order tractor parts supplier. In 1982, the Company was purchased by a group of investors, including a member of the Company's current management team who is a significant stockholder. In 1994, the Company made its initial public offering. Today, TSC is a specialty retailer which supplies products for the lifestyle needs of its target customers: hobby and part-time farmers and ranchers. The Company operates the largest chain of retail farm and ranch stores in the United States. TSC's 323 stores, located in 28 states, typically range in size from 12,000 to 15,000 square feet of inside selling space and utilize at least as many square feet of outside selling space. Stores are located in rural communities and in the outlying areas of large cities where the rural lifestyle is a significant factor in the local economy.

The Company meets the lifestyle needs of its customers with a comprehensive selection of livestock and pet products (specialty feeds, supplements, equine supplies, medicines, veterinary supplies, fencing and livestock feeders); hardware and tool products (air compressors, welders, generators, pumps, plumbing and hand tools); seasonal products (riding mowers, tillers, lawn and garden supplies and heaters); truck accessories and trailers (truck tool boxes, trailers, towing accessories, tires, lubricants and batteries); clothing and footwear; and agriculture products (tractor parts and accessories, agricultural spraying equipment and tillage parts). The Company's merchandising strategy combines this comprehensive product selection with strong inventory support.

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### Seasonality and Weather

The Company's business is highly seasonal. Historically, the Company's sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the sale of seasonal products. The Company typically operates at a net loss in the first fiscal quarter of each year. Unseasonable weather, excessive rain, drought, and early or late frosts may also affect the Company's sales. The Company believes, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of its stores.

### Business Strategy

The Company believes its sales and earnings growth has resulted from the focused execution of its business strategy, which includes the following key components:

*Market Niche.* The Company is focused on enhanced financial performance through same store sales growth, which it believes will be accomplished in its specialized market niche — supplying the daily farming and maintenance needs of hobby and part-time farmers and ranchers. By focusing its product mix on these core customers, the Company believes it has differentiated itself from general merchandise, home center and other specialty retailers.

*Customer Service .* The Company is committed to providing superior customer service. It offers its customers a high level of in-store service through motivated, well-trained, technically proficient store employees. The Company believes the ability of its store employees to provide friendly, responsive, technical assistance is valued by its customers and helps to promote strong customer loyalty and repeat shopping.

*Product Selection .* The Company offers a comprehensive selection of high quality, nationally recognized brand name and private label products, focused principally on the needs of the hobby and part-time farmer and rancher. The Company seeks to offer an extensive assortment of merchandise in specialized products. The Company's full line of product offerings is supported by a strong in-stock inventory position. An average store displays approximately 12,000 to 14,000 different products.

*Pricing.* The Company utilizes an "everyday low prices" strategy to consistently offer its products at competitive prices. The Company monitors prices at competing stores and adjusts its prices as necessary. The Company believes that by avoiding a "sale" oriented marketing strategy, it is attracting customers on a regular basis rather than only in response to sales.

*Technology.* Management strives to improve operating efficiencies and reduce costs through the use of modern technologies. The Company utilizes a fully integrated computerized merchandise and warehouse management and point-of-sale system that permits the entire store network to communicate with the Company's distribution centers and its management headquarters. The Company believes that this integrated system results in lower inventory carrying costs, improved in-stock positions and enhanced inventory control, as well as management and purchasing efficiencies. The Company believes that its ongoing commitment to utilize modern technologies creates a competitive advantage.

*Store Locations.* The Company's strategy is to locate its stores in areas where the rural lifestyle is a significant factor in the local economy. The Company believes it has developed a sophisticated, proven methodology for selecting new store sites.

*Vendor Partnering.* The Company has established close working relationships with many of its principal vendors to manage stock levels, develop new products, plan promotions and design merchandise displays. The Company intends to continue to expand its vendor partnering strategy to include most of its other key vendors.

*Advertising.* To generate store traffic and position TSC as a destination store, the Company promotes broad selections of merchandise with color circulars distributed by direct mail and as newspaper inserts. The Company also runs periodic special events promoted through local flyers, circulars and radio advertising. The Company enhances its print marketing and advertising programs through the expanded use of radio and national

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television. In connection with these programs, the Company has retained George Strait, a renowned country music entertainer, as its national spokesman.

*Store Environment*. TSC's stores are open, clean, bright and offer a pleasant atmosphere with disciplined product presentation, attractive displays, both inside and outside the store, and efficient check-out procedures. The Company endeavors to staff its stores with courteous, highly motivated, knowledgeable employees in order to provide a friendly, enjoyable shopping experience.

### Growth Strategy

The Company's current and long-term growth strategy is built on a combination of (1) expanded geographic market presence, achieved through the opening of new retail stores and (2) enhanced financial performance through comparable store sales increases, achieved through aggressive merchandising programs with an "everyday low prices" philosophy, supported by strong customer service. Since the Company's initial public offering in February 1994, the Company has opened 177 new retail stores (an annualized unit growth rate of 10.1%) and relocated 15. These new stores have increased the Company's market presence in the Southwest, primarily in Texas, and in the Southeast, primarily in Tennessee, Kentucky, North Carolina and Florida. This expansion brings the Company's total store count to 323 (in 28 states) as of December 29, 2001. During this period, the Company has also closed six stores (excluding relocations).

The Company continued its new store growth plan with an approximate 6% overall new store unit growth in fiscal 2001. The Company has a base plan to open 25 stores in fiscal 2002 (an approximate 8% unit growth rate) and, with the acquisition of certain real estate properties and lease rights from Quality Stores, Inc., an additional 87 stores.

After the close of fiscal year 2001, the United States Bankruptcy Court approved a transaction for the sale of certain assets of Quality Stores, Inc., the Company's single largest national competitor. The Company purchased the real property for 24 stores, the lease rights to 76 stores and the furniture and fixtures from 100 stores. Total consideration, including estimated transaction costs, was approximately \$35 million. The Company may sell and leaseback 20 of the real properties and sell four properties with expected proceeds of approximately \$23 million. Alternatively, the Company may mortgage the related properties or otherwise obtain long-term financing. The Company plans to open 87 of the locations as new Tractor Supply stores by the middle of fiscal 2002 and to relocate existing Tractor Supply stores in nine other locations later in the same year. Capital expenditures to convert the stores to the Tractor Supply format are expected to be \$12 to \$13 million and inventories for the converted stores are expected to total between \$55 and \$60 million. The Company believes that its cash flow from operations, borrowings available under its Senior Credit Facility and short-term trade credit will be sufficient to fund this expansion.

The Company's strategy is generally to lease its new stores. Assuming that new stores are leased, the estimated cash required to open a new store is approximately \$800,000 to \$1,000,000, the majority of which is for initial acquisition of inventory and capital expenditures, principally leasehold improvements, fixtures and equipment, and the balance of which is for store opening expenses.

The Company plans to relocate a total of 10 to 12 stores in fiscal 2002 and an average of three or four additional stores each year over the next several years. Store relocations are typically undertaken to move small, older stores to full-size formats in prime retail areas. The cash required to complete a store relocation typically ranges from \$200,000 to \$550,000 depending on whether the Company is responsible for any renovation or remodeling costs.

The Company plans to extensively remodel an average of two or three of its strong performing stores each year over the next several years. The estimated cash required to complete a major remodeling typically ranges from \$200,000 to \$400,000. The Company also plans to perform minor remodelings of its stores on an on-going basis to ensure overall Company physical facility standards are maintained. The estimated cash required to complete a minor remodeling typically ranges from \$40,000 to \$80,000.



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### Store Environment and Merchandising

The Company's stores are designed and managed to create a pleasant environment, maximize sales and operating efficiencies and make shopping an enjoyable experience. The Company's stores are clean, open and bright. The average Company store has approximately 13,000 square feet of inside selling space. The Company typically utilizes at least 12,000 square feet of outside space from which it merchandises certain farm-related and lawn and garden products. Visual displays inside and outside can be changed easily for seasonal products and promotions and space can be reallocated easily among departments.

The following chart indicates the average percentages of sales represented by each of the Company's major product categories during fiscal 2001, 2000 and 1999:

| Product Category       | Percent of Total Sales |      |      |
|------------------------|------------------------|------|------|
|                        | 2001                   | 2000 | 1999 |
| Livestock and Pet      | 30%                    | 29%  | 27%  |
| Hardware and Tools     | 17                     | 18   | 20   |
| Seasonal Products      | 22                     | 22   | 22   |
| Truck/Trailer/Tow/Lube | 13                     | 13   | 13   |
| Clothing and Footwear  | 9                      | 9    | 9    |
| Agriculture Products   | 9                      | 9    | 9    |
|                        | 100%                   | 100% | 100% |

The Company's stores carry a consistent merchandise mix, tailored to some extent to specific regional needs and store size, and stock an average of 12,000 to 14,000 products. The Company's stores carry a wide selection of quality, nationally recognized, name brand merchandise. The Company also markets private label merchandise under the Huskee, Traveller, Producer's Pride, Retriever and Dumor registered trademarks.

### Customer Service

The Company is committed to providing superior customer service. Store employees are the key to quality customer service, and the Company seeks to provide them with decision-making authority and training to enable them to meet customer needs.

The Company's refund policy is "hassle free" if within 30 days of date of purchase and accompanied by a receipt. However, the Company also has a "satisfaction guaranteed" policy, such that if customers are not satisfied, store employees are authorized, at their discretion, to offer to repair or exchange the product, or offer store credits or refunds, irrespective of when the product was purchased. The Company believes that by providing these services it improves customer satisfaction, builds customer loyalty and generates repeat business.

TSC offers a proprietary, third party credit card for individual retail customers. In addition, TSC accepts Visa, MasterCard and Discover credit cards.

The Company devotes considerable resources to training its store employees, often in cooperation with its vendors. The Company's training programs include (i) a full management training program for manager trainees which covers all aspects of the Company's operations, (ii) product knowledge video tapes produced in conjunction with over 100 of its vendors, (iii) semi-annual retail training skills classes, (iv) semi-annual store managers meetings with vendor product presentations, (v) vendor sponsored in-store training programs and (vi) ongoing product information updates from the Company's management headquarters. The Company seeks to hire and train store employees with farming and ranching backgrounds, with particular emphasis in general maintenance, equine and welding.

### Purchasing and Distribution

The Company offers an extensive selection of farm and ranch maintenance and other specialty products. The Company's business is not dependent upon any one vendor or particular group of vendors. The Company purchases its products from approximately 1,000 vendors, the five largest of which accounted for less than 25% of the Company's total purchases in fiscal 2001 and one of which (MTD Products, Inc.) accounted for more than 10% of

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the Company's purchases during such year. The Company has no material long-term contractual commitments with any of its vendors, has not experienced difficulty in obtaining satisfactory alternative sources of supply for its products and believes that adequate sources of supply exist at substantially similar costs for substantially all of its products. Over 90% of the Company's purchase orders are transmitted through an electronic data interchanges ("EDI") system, and approximately 50% of vendor invoices are transmitted through EDI. The Company is working to expand the number of vendors who transmit invoices to the Company and increase the amount of sales history transmitted from the Company, all through EDI. The Company's merchandise purchasing is centrally managed.

The Company operates a 500,000 square foot distribution center in Pendleton, Indiana, a 144,000 square foot distribution center in Omaha, Nebraska and a 105,000 square foot distribution center in Waco, Texas, from which it serviced approximately 207 stores, 49 stores and 67 stores, respectively, at December 29, 2001. The Company also utilizes a 57,000 square foot, strategically located "cross-dock" facility in Rural Hall, North Carolina to support the main distribution centers and transportation system network in servicing certain stores located in the Southeast region of the country. In fiscal 2001, the Company received approximately 65% of its merchandise through these distribution facilities, with the balance delivered directly to the Company's stores. The main distribution centers ship to its stores using a dedicated contract carrier, UPS Logistics Group, Inc. ("UPS"). UPS manages the dedicated transportation services for the Company's distribution centers and the "cross-dock" facility, as well as the vendor direct-to-store shipments. Additionally, UPS is responsible for the inbound freight management from over 300 vendors. The Company is continuously evaluating its long-term strategic plan with respect to its distribution centers and transportation operations.

### Management Information and Control Systems

The Company has invested considerable resources in sophisticated management information and control systems to ensure superior customer service, support the purchase and distribution of merchandise and improve operating efficiencies. The management information and control systems include a point-of-sale system, a purchase order management system, a replenishment system, a merchandise planning system and sales, inventory and gross margin management reporting systems. These systems are fully integrated and track merchandise from order through sale. All operational data from these systems is also fully integrated with the Company's financial systems.

The Company continues to evaluate and improve the functionality of its systems to maximize their effectiveness. Such efforts will include an ongoing evaluation of the optimal software configuration (including system enhancements and upgrades) as well as the adequacy of the underlying hardware components. These efforts are directed toward constantly improving the overall business processes and achieving the most efficient and effective use of the system to manage the Company's operations.

### Competition

The Company operates in a highly competitive market. While the Company believes it has successfully differentiated itself from general merchandise, home center (i.e. "big box") retailers and other specialty and discount retailers, the Company faces select competition from these entities, as well as competition from independently owned retail farm stores, several privately-held regional farm store chains and farm cooperatives. Some of these competitors are units of large national or regional chains that have substantially greater financial and other resources than the Company.

### Management and Employees

As of December 29, 2001, the Company employed approximately 2,100 full-time and approximately 2,100 part-time employees. The Company also employs additional part-time employees during peak periods. As of such date, approximately 30 employees of the Company's Omaha, Nebraska distribution center were covered by a collective bargaining agreement. This collective bargaining agreement expires in July 2002.

Management believes its district managers, store managers and other supervisory personnel have contributed significantly to the Company's performance. Management encourages the participation of all store employees in

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decision making, regularly solicits input and suggestions from store employees and responds to the suggestions expressed by Company employees. Management believes it has good relationships with its employees.

Two of the five members of the Company's senior management, most of the Company's district managers and a significant portion of the Company's store managers were promoted to their positions from within the Company. All members of senior management have at least 15 years of business experience and one member of senior management has over 20 years of experience with the Company. District managers and store managers have an average length of service with the Company of approximately 6.3 years and 5.3 years, respectively. Management believes internal promotions coupled with the hiring of individuals with previous retail experience will provide the management structure necessary to support expected store growth.

### Item 2. Properties

At December 29, 2001, the Company operated 323 stores in 28 states. The Company leases its four distribution facilities and its management headquarters, owns 65 stores and leases 258 stores. The store leases typically have initial terms of between 10 and 15 years, with one to three renewal periods of five years each, exercisable at the Company's option. None of the store leases individually is material to the Company's operations. The leases at its Pendleton, Indiana; Omaha, Nebraska; Waco, Texas and Rural Hall, North Carolina distribution facilities expire in 2015, 2004, 2002 and 2004 respectively, and the lease for its management headquarters expires in 2007. The lease agreement for the Waco distribution facility includes two 6-month renewal options, which allows the term to extend into 2003. Six of the Company's stores are leased from affiliated parties. See Item 13. "Certain Relationships and Related Transactions".

As of December 29, 2001, the Company operated 323 stores in 28 states as follows:

| State          | Number of Stores | State        | Number of Stores |
|----------------|------------------|--------------|------------------|
| Texas          | 62               | North Dakota | 7                |
| Ohio           | 38               | Arkansas     | 6                |
| Tennessee      | 31               | Missouri     | 6                |
| Michigan       | 23               | Nebraska     | 6                |
| Indiana        | 20               | Minnesota    | 5                |
| North Carolina | 19               | Oklahoma     | 5                |
| Kentucky       | 15               | South Dakota | 4                |
| Florida        | 13               | Alabama      | 3                |
| Illinois       | 10               | Maryland     | 2                |
| Virginia       | 10               | Georgia      | 1                |
| Iowa           | 9                | Mississippi  | 1                |
| Kansas         | 8                | Montana      | 1                |
| Pennsylvania   | 8                | New York     | 1                |
| South Carolina | 8                | Wisconsin    | 1                |

### Item 3. Legal Proceedings

The Company is involved in various litigation matters involving routine claims and lawsuits arising in the ordinary course of its business. The Company does not believe that such claims and lawsuits, individually or in the aggregate, will have a material adverse effect on the Company's business. Compliance with federal, state, local and foreign laws and regulations pertaining to the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, and is not anticipated to have, a material effect upon the capital expenditures, earnings or competitive position of the Company.

### Item 4. Submission of Matters to a Vote of Security-Holders

No matter was submitted to a vote of the Company's security-holders during the fourth quarter of the Company's fiscal year ended December 29, 2001.

## Executive Officers of the Registrant

Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an unnumbered item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 18, 2002.

The following is a list of the names and ages of all officers, including the 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 |
|-------------------------|-------------------------------------------------------------|-----|
| Joseph H. Scarlett, Jr. | Chairman of the Board, Chief Executive Officer and Director | 59  |
| James F. Wright         | President and Chief Operating Officer                       | 52  |
| Gerald W. Brase         | Senior Vice President-Merchandising                         | 48  |
| Calvin B. Massmann      | Senior Vice President-Chief Financial Officer and Treasurer | 58  |
| Stanley L. Ruta         | Senior Vice President-Store Operations                      | 50  |
| John W. Atkins          | Vice President-Information Technology                       | 39  |
| Blake A. Fohl           | Vice President-Marketing                                    | 42  |
| Mark D. Gillman         | Vice President-Store Operations                             | 41  |
| Lawrence Goldberg       | Vice President-Logistics                                    | 59  |
| Stephen E. Hull         | Vice President-Real Estate                                  | 44  |
| David C. Lewis          | Vice President-Controller and Corporate Secretary           | 43  |
| Gary M. Magoni          | Vice President-Store Operations                             | 55  |
| Thomas P. Parrish       | Vice President-Divisional Merchandise Manager               | 39  |
| Kimberly D. Vella       | Vice President-Human Resources                              | 35  |

Joseph H. Scarlett, Jr. has served as Chairman of the Board and Chief Executive Officer of the Company since 1993, having previously served as President and Chief Operating Officer of the Company from 1987 to 1993. Between 1979 and 1987, Mr. Scarlett served as Vice President-Personnel, Senior Vice President-Administration and Executive Vice President-Operations of the Company. Mr. Scarlett has served as a director of the Company since 1982.

James F. Wright has served as President and Chief Operating Officer of the Company since October 2000. Mr. Wright previously served as President and Chief Executive Officer of Tire Kingdom, a tire and automotive services retailer, from May 1997 to June 2000. From 1988 to 1996, Mr. Wright held senior management-level positions with Western Auto Supply Co., having responsibilities for merchandising and store operations.

Gerald W. Brase has served as Senior Vice President-Merchandising of the Company since September 1997. Mr. Brase previously served as Divisional Vice President for Builders Square, a subsidiary of Kmart Corporation from 1993 to 1997.

Calvin B. Massmann has served as Senior Vice President-Chief Financial Officer and Treasurer since January 2000. Mr. Massmann previously served as an independent business consultant during 1998 and 1999. From 1995 to 1997, Mr. Massmann served as Senior Vice President and Chief Financial Officer for Builders Square, a subsidiary of Kmart Corporation.

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Stanley L. Ruta has served as Senior Vice President-Store Operations since June 2000, after having served as a Vice President-Store Operations of the Company since 1994.

John W. Atkins has served as Vice President-Information Technology of the Company since April 1999, after having served as Vice President-Farm Merchandising of the Company since December 1996 and as Division Merchandise Manager of Farm Products of the Company since 1995 and as a Buyer for the Company since 1992.

Blake A. Fohl has served as Vice President-Marketing of the Company since December 1996, after having served as Director of Marketing of the Company since June 1995 and as a Buyer for the Company since 1992.

Mark D. Gillman has served as a Vice President-Store Operations of the Company since October 1999, after having served as District Manager since 1991 and as a store manager for the Company since 1982.

Lawrence Goldberg has served as Vice President-Logistics of the Company since October 1993, after having served as Director of Distribution of the Company since 1992.

Stephen E. Hull has served as Vice President-Real Estate of the Company since January 1999, after having served as Director of Real Estate of the Company since 1998. Mr. Hull previously served as Vice President of Real Estate of Heilig-Myers Corporation from 1990 to 1998.

David C. Lewis has served as Vice President-Controller and Corporate Secretary since April 2000, after having served as Assistant Controller of the Company since November 1995.

Gary M. Magoni has served as Vice President-Store Operations of the Company since 1989.

Thomas P. Parrish has served as Vice President of Merchandising-Farm Products since October 2001, after having served as Divisional Merchandise Manager of Farm Products of the Company since 1999. Prior to 1999, Mr. Parrish served as a Buyer of the Company from 1995 to 1999 and Assistant Buyer from 1993 to 1995.

Kimberly D. Vella has served as Vice President-Human Resources since October 2001, after having served as Director of Human Resources since September 1997 and Manager of Human Resources of the Company since January 1997.

**PART II**

**Item 5. Market for Registrant’s Common Equity and Related Stockholder Matters**

The Company’s Common Stock began trading on The Nasdaq National Market on February 18, 1994 under the symbol “TSCO”.

The table below sets forth the high and low sales prices of the Company’s Common Stock as reported by The Nasdaq National Market for each fiscal quarter of the periods indicated:

|                | Price Range |         |             |         |
|----------------|-------------|---------|-------------|---------|
|                | Fiscal 2001 |         | Fiscal 2000 |         |
|                | High        | Low     | High        | Low     |
| First Quarter  | \$14.94     | \$ 8.50 | \$21.00     | \$14.63 |
| Second Quarter | \$16.45     | \$13.50 | \$22.00     | \$12.00 |
| Third Quarter  | \$24.48     | \$14.80 | \$17.19     | \$ 9.69 |
| Fourth Quarter | \$34.98     | \$17.47 | \$11.06     | \$ 6.50 |

As of January 31, 2002, the approximate number of record holders of the Company’s Common Stock was 76 (excluding individual participants in nominee security position listings) and the estimated number of beneficial holders of the Company’s Common Stock was 4,500.

The Company has not declared any cash dividends on its Common Stock during the two most recent fiscal years. The Company currently intends to retain all earnings for future operation and expansion of its business and, therefore, does not anticipate that any dividends will be declared on the Common Stock in the foreseeable future. Any future declaration of dividends will be subject to the discretion of the Company’s Board of Directors and subject to the Company’s results of operations, financial condition, cash requirements and other factors deemed relevant by the Board of Directors. The Company is also restricted from paying cash dividends by the terms of its various financing agreements.

**Item 6. Selected Financial Data**

The information set forth under the caption “Five Year Selected Financial and Operating Highlights” on page 14 of the Company’s Annual Report to Stockholders for the fiscal year ended December 29, 2001 is incorporated herein by reference.

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

The information set forth under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on pages 15 through 22 of the Company’s Annual Report to Stockholders for the fiscal year ended December 29, 2001 is incorporated herein by reference.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The information set forth under the caption “Market Risks” of the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on page 21 of the Company’s Annual Report to Stockholders for the fiscal year ended December 29, 2001 is incorporated herein by reference.

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

The information set forth under the captions “Report of Independent Auditors”, “Consolidated Balance Sheets,” “Consolidated Statements of Income”, “Consolidated Statement of Changes in Stockholders’ Equity”, “Consolidated Statements of Cash Flows”, and “Consolidated Notes to Financial Statements” on pages 22 through 36 of the Company’s Annual Report to Stockholders for the fiscal year ended December 29, 2001 is incorporated herein by reference.

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The Company's unaudited operating results for each fiscal quarter within the two most recent fiscal years, as set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 16 of the Company's Annual Report to Stockholders for the fiscal year ended December 29, 2001, is incorporated herein by reference.

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

As previously reported by the Company in a Form 8-K filed on September 21, 2001, the Company appointed Ernst & Young LLP as the Company's independent auditors and dismissed PricewaterhouseCoopers LLP. The report of PricewaterhouseCoopers LLP on the financial statements of the Company for the fiscal years ended December 30, 2000 and January 1, 2000 contained no adverse opinion or disclaimer of opinion and neither of those reports was qualified or modified as to uncertainty, audit scope or accounting principle. During the fiscal years ended December 30, 2000 and January 1, 2000, and through September 17, 2001, there were no disagreements or reportable events. The decision to change firms was approved by the Audit Committee of the Company's Board of Directors.

## **PART III**

### **Item 10. Directors and Executive Officers of the Registrant**

The information set forth under the captions "Election of Class I and II Directors and Information Regarding Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" on pages 2 through 4 and 13 and 14, respectively, of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on April 18, 2002 is incorporated herein by reference.

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

### **Item 11. Executive Compensation**

The information set forth under the captions "Board of Directors and Committees of the Board — Compensation of Directors", "Compensation Committee Interlocks and Insider Participation", "Executive Compensation", "Summary Compensation Table", "Option Grants in Last Fiscal Year", "Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values", "Compensation Committee's Report on Executive Compensation", and "Performance Graph" on pages 4 through 12 of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on April 18, 2002 is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management**

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" on pages 14 and 15 of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on April 18, 2002 is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions**

The information set forth under the caption "Interests of Management in Certain Transactions" on page 13 of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on April 18, 2002 is incorporated herein by reference.

PART IV

**Item 14. Exhibits, Financial Statements and Reports on Form 8-K**

(a)(1) Financial Statements

The following financial statements and related notes of the Company contained on pages 22 through 36 of the Company's Annual Report to Stockholders for the fiscal year ended December 29, 2001 are incorporated herein by reference:

Report of Independent Auditors

Consolidated Statements of Income — Fiscal Years Ended December 29, 2001, December 30, 2000 and January 1, 2000

Consolidated Balance Sheets – December 29, 2001 and December 30, 2000

Consolidated Statement of Changes in Stockholders' Equity — Fiscal Years Ended December 29, 2001, December 30, 2000 and January 1, 2000

Consolidated Statements of Cash Flows — Fiscal Years Ended December 29, 2001, December 30, 2000 and January 1, 2000

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

None

Financial statement schedules have been omitted because they are not applicable or because the required information is otherwise furnished.

(a)(3) Exhibits

The exhibits listed in the Index to Exhibits, which appears on pages 14 through 20 of this Form 10-K, are incorporated herein by reference or filed as part of this Form 10-K.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Registrant during the last quarter of the fiscal year ended December 29, 2001.



- (d) Report of PricewaterhouseCoopers LLP, Independent Accountants, on the consolidated financial statements of the Company as of December 30, 2000 and for the two years in the period ended December 30, 2000.

**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors and  
Stockholders of Tractor Supply Company

In our opinion, the balance sheet as of December 30, 2000 and the related statements of income, of changes in stockholders' equity and of cash flows for each of the two years in the period ended December 30, 2000 present fairly, in all material respects, the financial position of Tractor Supply Company at December 30, 2000 and the results of its operations and its cash flows for each of the two years in the period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion. We have not audited the financial statements of Tractor Supply Company for any period subsequent to December 30, 2000.

/s/ PricewaterhouseCoopers LLP

Nashville, Tennessee  
January 24, 2001

## SIGNATURES

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

### TRACTOR SUPPLY COMPANY

Date: March 28, 2002

By: /s/ Calvin B. Massmann

\_\_\_\_\_  
Calvin B. Massmann  
Senior Vice President –  
Chief Financial Officer and Treasurer

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

| Signature                                                       | Title                                                                                          | Date           |
|-----------------------------------------------------------------|------------------------------------------------------------------------------------------------|----------------|
| _____<br>/s/ Joseph H. Scarlett, Jr.<br>Joseph H. Scarlett, Jr. | Chairman of the Board, Chief Executive Officer and<br>Director (Principal Executive Officer)   | March 28, 2002 |
| _____<br>/s/ Calvin B. Massmann<br>Calvin B. Massmann           | Senior Vice President – Chief Financial Officer and<br>Treasurer (Principal Financial Officer) | March 28, 2002 |
| _____<br>/s/ Thomas O. Flood<br>Thomas O. Flood                 | Director                                                                                       | March 28, 2002 |
| _____<br>/s/ Joseph D. Maxwell<br>Joseph D. Maxwell             | Director                                                                                       | March 28, 2002 |
| _____<br>/s/ S.P. Braud<br>S.P. Braud                           | Director                                                                                       | March 28, 2002 |
| _____<br>/s/ Joseph M. Rodgers<br>Joseph M. Rodgers             | Director                                                                                       | March 28, 2002 |
| _____<br>/s/ Gerard E. Jones<br>Gerard E. Jones                 | Director                                                                                       | March 28, 2002 |
| _____<br>/s/ Sam K. Reed<br>Sam K. Reed                         | Director                                                                                       | March 28, 2002 |

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| Exhibit Number | Description                                                                                                                                                                                                                                                                                                                                                      | Page Number by Sequential Numbering System |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| 3.1            | Restated Certificate of Incorporation, as amended, of the Company, filed with the Delaware Secretary of State on February 14, 1994 (filed as Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 8, 1997, Commission File No. 000-23314, and incorporated herein by reference).                                       |                                            |
| 3.2            | Certificate of Amendment of the Restated Certificate of Incorporation, as amended, of the Company, filed with the Delaware Secretary of State on April 28, 1995 (filed as Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 8, 1997, Commission File No. 000-23314, and incorporated herein by reference).          |                                            |
| 3.3            | Certificate of Amendment of the Restated Certificate of Incorporation, as amended, of the Company, filed with the Delaware Secretary of State on May 13, 1997 (filed as Exhibit 3.3 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 8, 1997, Commission File No. 000-23314, and incorporated herein by reference).            |                                            |
| 3.4            | Amended and Restated By-laws of the Company as currently in effect (filed as Exhibit 3.7 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                                   |                                            |
| 4.1            | Form of Specimen Certificate representing the Company's Common Stock, par value \$.008 per share (filed as Exhibit 4.2 to Amendment No. 1 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on January 31, 1994, and incorporated herein by reference).                                                   |                                            |
| 10.1           | Revolving Credit Agreement, dated as of August 31, 1994, among the Company, The First National Bank of Boston, as agent and for itself, and First American National Bank (filed as Exhibit 1 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 9, 1994, Commission File No. 000-23314, and incorporated herein by reference). |                                            |
| 10.2           | Revolving Credit Note, dated as of August 31, 1994, issued by the Company to The First National Bank of Boston in the aggregate principal amount of \$25 million (filed as Exhibit 2 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 9, 1994, Commission File No. 000-23314, and incorporated herein by reference).         |                                            |
| 10.3           | Revolving Credit Note, dated as of August 31, 1994, issued by the Company to First American National Bank in the aggregate principal amount of \$5 million (filed as Exhibit 3 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 9, 1994, Commission File No. 000-23314, and incorporated herein by reference).               |                                            |

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| Exhibit Number | Description                                                                                                                                                                                                                                                                                                                                                                                                                                        | Page Number by Sequential Numbering System |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| 10.4           | First Amendment to Revolving Credit Agreement, dated as of July 31, 1996, among the Company and The First National Bank of Boston, as agent and for itself and First American National Bank (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q, Commission File No. 000-23314, filed with the Commission on November 6, 1996, and incorporated herein by reference).                                                             |                                            |
| 10.5           | Amended and Restated Revolving Credit Note, dated as of July 31, 1996, issued by the Company to First American National Bank in the aggregate principal amount of \$20 million (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q, Commission File No. 000-23314, filed with the Commission on November 6, 1996, and incorporated herein by reference).                                                                          |                                            |
| 10.6           | Second Amendment to Revolving Credit Agreement, dated as of March 23, 1998, among the Company and BankBoston, N.A. (successor to The First National Bank of Boston) as agent and for itself, First American National Bank, and SunTrust Bank Nashville, N.A. (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 1, 1998, Commission File No. 000-23314, and incorporated herein by reference). |                                            |
| 10.7           | Revolving Credit Note, dated as of March 23, 1998, issued by the Company to SunTrust Bank Nashville, N.A. in the aggregate principal amount of \$15 million (filed as Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 1, 1998, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                  |                                            |
| 10.8           | Loan Agreement, dated as of June 30, 1998 between the Company and SunTrust Bank, Nashville, N.A. (filed as Exhibit 10.37 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 30, 1998, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                       |                                            |
| 10.9           | Term Note, dated as of June 30, 1998, issued by the Company to SunTrust Bank, Nashville, N.A. in the aggregate amount of \$15 million (filed as Exhibit 10.38 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 30, 1998, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                  |                                            |
| 10.10          | Note Agreement (the "Note Agreement"), dated as of April 1, 1988, among the Company, The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America (filed as Exhibit 10.3 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                         |                                            |
| 10.11          | First Amendment to Note Agreement, dated April 1, 1991, among the Company, The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America (filed as Exhibit 10.4 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                   |                                            |

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| Exhibit Number | Description                                                                                                                                                                                                                                                                                                                                                                                                                | Page Number by Sequential Numbering System |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| 10.12          | Second Amendment to Note Agreement, dated as of February 1, 1992, among the Company, The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America (filed as Exhibit 10.5 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                 |                                            |
| 10.13          | Third Amendment to Note Agreement, dated as of July 1, 1993, among the Company, The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America (filed as Exhibit 10.6 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                      |                                            |
| 10.14          | Form of Adjustable Rate First Mortgage Notes due January 1, 2004 issued by the Company to The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America pursuant to the Note Agreement, as amended (filed as Exhibit 10.7 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference). |                                            |
| 10.15          | Form of Mortgage, dated as of May 10, 1988, from the Company to The Mutual Life Insurance Company of New York pursuant to the Note Agreement, as amended (filed as Exhibit 10.8 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                      |                                            |
| 10.16          | Indenture of Lease, dated as of January 1, 1986, between the Company and Joseph H., Jr. and Dorothy F. Scarlett (relating to Omaha, Nebraska store) (filed as Exhibit 10.14 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                          |                                            |
| 10.17          | Indenture of Lease, dated as of January 1, 1986, between the Company and Joseph D. and Juliann K. Maxwell (relating to Nashville, Tennessee store) (filed as Exhibit 10.18 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                           |                                            |
| 10.18          | Indenture of Lease, dated as of January 1, 1986, between the Company and Thomas O. and Vickie Flood (relating to Mandan, North Dakota store) (filed as Exhibit 10.19 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                 |                                            |
| 10.19          | Indenture of Lease, dated as of September 15, 1986, between the Company and GOF Partners (relating to Nashville, Tennessee management headquarters) (filed as Exhibit 10.20 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                          |                                            |

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| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                             | Page Number<br>by Sequential<br>Numbering System |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| 10.20             | Tractor Supply Company 1994 Stock Option Plan (filed as Exhibit 10.28 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                             |                                                  |
| 10.21             | Amendment to the Tractor Supply Company 1994 Stock Option Plan (filed as Exhibit 10.25 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 8, 1997, Commission File No. 000-23314, and incorporated herein by reference).                                                                |                                                  |
| 10.22             | Senior Executive Incentive Plan of the Company (filed as Exhibit 10.28 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 18, 1998, Commission File No. 000-23314, and incorporated herein by reference).                                                                                   |                                                  |
| 10.23             | Other Executive Incentive Plan of the Company (filed as Exhibit 10.29 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 18, 1998, Commission File No. 000-23314, and incorporated herein by reference).                                                                                    |                                                  |
| 10.24             | Form of Deferred Compensation Agreement constituting the Deferred Compensation Plan of the Company (filed as Exhibit 10.30 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 18, 1998, Commission File No. 000-23314, and incorporated herein by reference).                               |                                                  |
| 10.25             | Certificate of Insurance relating to the Medical Expense Reimbursement Plan of the Company (filed as Exhibit 10.33 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                |                                                  |
| 10.26             | Summary plan description of the Executive Life Insurance Plan of the Company (filed as Exhibit 10.34 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                              |                                                  |
| 10.27             | Agreement, effective April 1, 1996, between the Company and Chauffeurs, Teamsters, Warehousemen and Helpers, Local Union No. 135 (filed as Exhibit 10.32 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 21, 1997, Commission File No. 000-23314, and incorporated herein by reference). |                                                  |
| 10.28             | Tractor Supply Company 1996 Associate Stock Purchase Plan (filed as Exhibit 4.4 to Registrant's Registration Statement on Form S-8, Registration No. 333-10699, filed with the Commission on August 23, 1996, and incorporated herein by reference).                                                                    |                                                  |
| 10.29             | Indemnification Agreement, dated January 27, 1994, between the Company and Thomas O. Flood (filed as Exhibit 10.38 to Amendment No. 1 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on January 31, 1994, and incorporated herein by reference).              |                                                  |
| 10.30             | Tractor Supply Company Restated 401(k) Retirement Plan (filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-3, Registration No. 333-35317, filed with the Commission on September 10, 1997, and incorporated herein by reference).                                                                    |                                                  |

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| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Page Number<br>by Sequential<br>Numbering System |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| 10.31             | Trust Agreement (filed as Exhibit 4.2 to Registrant's Registration Statement on Form S-3, Registration No. 333-35317, filed with the Commission on September 10, 1997, and incorporated herein by reference).                                                                                                                                                                                                                                                                                                                         |                                                  |
| 10.32             | Noncompetition Agreement, dated as of June 30, 1996, between the Company and Joseph D. Maxwell (filed as Exhibit 10.35 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 31, 1997, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                                                                                                            |                                                  |
| 10.33             | Split-Dollar Agreement, dated January 27, 1998, between the Company and Joseph H. Scarlett, Jr., Tara Anne Scarlett and Andrew Sinclair Scarlett (filed as Exhibit 10.45 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 17, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                                                               |                                                  |
| 10.34             | Split-Dollar Agreement, dated January 2, 1998, between the Company and Thomas O. Flood and Terry Mainiero, as Trustee of the Flood 1997 Irrevocable Trust under Agreement dated November 10, 1997. (filed as Exhibit 10.46 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 17, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                             |                                                  |
| 10.35             | Term Note, dated as of September 2, 1999, issued by the Company to SunTrust Bank, Nashville, N.A., a national banking association, in the aggregate amount of \$15 million (filed as Exhibit 10.47 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 29, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                                |                                                  |
| 10.36             | Noncompetition Agreement, dated as of August 31, 1999, between the Company and Thomas O. Flood (filed as Exhibit 10.48 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 29, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                                                                                                            |                                                  |
| 10.37             | Consulting Agreement, dated as of August 31, 1999, between the Company and Thomas O. Flood (filed as Exhibit 10.49 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 29, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                                                                                                                |                                                  |
| 10.38             | Third Amendment to Revolving Credit Agreement, dated as of November 15, 1999 among the Company and SunTrust Bank Nashville, N.A. (replaced Bank Boston, N.A. as agent), as agent and for itself, AmSouth Bank (successor to First America National Bank), an national banking association, and Bank of America, a national banking association (filed as Exhibit 10.43 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 24, 2000, Commission File No. 000-23314, and incorporated herein by reference). |                                                  |
| 10.39             | Second Amendment to the Tractor Supply Company 1994 Stock Option Plan (filed as Exhibit 10.44 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 24, 2000, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                                                                                                                                          |                                                  |

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                                     | Page Number<br>by Sequential<br>Numbering System |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| 10.40             | Agreement, effective August 1, 1999 between the Company and General Drivers & Helpers Union, Local #554 (filed as Exhibit 10.45 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 24, 2000, Commission No. 000-23314, and incorporated herein by reference).                                                                       |                                                  |
| 10.41             | Tractor Supply Company 2000 Stock Incentive Plan (filed as Exhibit 10.46 to Registrant's Quarterly report on Form 10-Q, filed with the Commission on August 4, 2000, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                      |                                                  |
| 10.42             | Loan Agreement, dated as of August 10, 2000 between the Company and Bank of America, N.A. (filed as Exhibit 10.47 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 14, 2000, Commission File No. 000-23314, and incorporated herein by reference).                                                                          |                                                  |
| 10.43             | Term Note, dated as of August 10, 2000 issued by the Company to Bank of America, N.A., in the aggregate amount of \$20 million (filed as Exhibit 10.48 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 14, 2000, Commission File No. 000-23314, and incorporated herein by reference).                                     |                                                  |
| 10.44             | Revolving Credit Agreement, dated as of November 3, 2000 by and among Tractor Supply Company, the banks party thereto and Bank of America, N.A., as Administrative Agent (filed as Exhibit 10.46 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference). |                                                  |
| 10.45             | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and Bank of America, N.A (filed as Exhibit 10.47 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                     |                                                  |
| 10.46             | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and Firststar Bank, N. A. (filed as Exhibit 10.48 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                    |                                                  |
| 10.47             | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and SouthTrust Bank (filed as Exhibit 10.49 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                          |                                                  |
| 10.48             | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and AmSouth Bank (filed as Exhibit 10.50 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                             |                                                  |
| 10.49             | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and SunTrust Bank, Nashville, N.A. (filed as Exhibit 10.51 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                           |                                                  |



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| Exhibit Number | Description                                                                                                                                                                                                                                                                                                                                         | Page Number by Sequential Numbering System |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|
| 10.50          | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and Compass Bank (filed as Exhibit 10.52 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                 |                                            |
| 10.51          | Revolving Note, dated as of December 30, 2000 between Tractor Supply Company and Fifth Third Bank (filed as Exhibit 10.53 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                            |                                            |
| 10.52          | Amended and Restated Loan Agreement, dated as of November 3, 2000, between the Company and SunTrust Bank, Nashville, N.A. (filed as Exhibit 10.54 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                    |                                            |
| 10.53          | Amended and Restated Term Note, dated as of November 3, 2000, issued by the Company to SunTrust Bank, Nashville, N.A. in the aggregate amount of \$9,999,945 (filed as Exhibit 10.55 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference). |                                            |
| 10.54          | First Amendment to Lease Agreement, dated as of December 18, 2000, between Tractor Supply Company and GOF Partners (filed as Exhibit 10.56 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                           |                                            |
| 10.55          | Second Amendment to Tractor Supply Company Restated 401(k) Retirement Plan (filed as Exhibit 10.57 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                                   |                                            |
| 10.56          | Transportation Management Services Agreement between UPS Logistics Group, Inc. and Tractor Supply Company dated May 10, 2001 (filed as Exhibit 10.58 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 14, 2001 Commission File No. 000-23314, and incorporated herein by reference).                              |                                            |
| *10.57         | Letter, dated October 2, 2001, from Bank of America, N.A., as Administrative Agent, approving a one-year extension of the Revolving Credit Agreement to November 2, 2004.                                                                                                                                                                           |                                            |
| *13.1          | Annual Report to Stockholders for the fiscal year ended December 29, 2001.                                                                                                                                                                                                                                                                          |                                            |
| *23.1          | Consent of Ernst & Young LLP.                                                                                                                                                                                                                                                                                                                       |                                            |
| *23.2          | Consent of PricewaterhouseCoopers LLP.                                                                                                                                                                                                                                                                                                              |                                            |
| *23.3          | Consent of PricewaterhouseCoopers LLP.                                                                                                                                                                                                                                                                                                              |                                            |

\* Filed herewith.

### EXHIBIT 10.57

October 2, 2001

Bank of America Financial Strategies Group 414 Union Street Nashville, Tennessee 37239

Mr. Calvin Massmann  
Chief Financial Officer  
Tractor Supply Co.  
320 Plus Park Blvd.  
Nashville, TN 37217

Dear Cal:

Bank of America, N.A., as administrative agent is pleased to inform that the Bank Group for Tractor Supply's \$125,000,000 credit facility has unanimously approved the one year extension as allowed in Section 2.4 of the Credit Agreement dated November 3, 2000. The new maturity for the facility is November 2, 2004.

Sincerely

*/s/ Bryan Hulker*  
-----  
*Senior Vice President*

**2001 ANNUAL REPORT  
[TSC LOGO]  
TRACTOR SUPPLY CO**

**[PHOTO]**

**OUR SALES TEAM:  
A FARMER, AN EQUINE  
ENTHUSIAST, AND A WELDER**

## **THIS IS TRACTOR SUPPLY COMPANY**

Tractor Supply Company began as a tractor parts mail-order catalog business in Chicago in 1938 and has grown to be the largest operator of retail farm and ranch stores in the United States. Stores are located in the outlying towns of major metropolitan markets and in rural communities. Tractor Supply operates 323 stores in 28 states focusing on supplying products for the lifestyle needs of hobby and part-time farmers and ranchers. The Company also serves the maintenance needs of suburban customers, contractors and tradesmen.

Over the past six decades, many aspects of our business have changed including the size of our stores and the merchandise assortment. But one thing has not changed -- our commitment to our customers. Superior customer service is the key to sales success, profit growth and store growth. And the most important component in providing superior customer service -- outstanding team members with great attitudes!

Our number one asset at Tractor Supply is our employees -- from our store teams, to our support personnel, to our leadership --everyone works hard to provide our customers with a great shopping experience. After all, this attitude is what has made us the largest farm and ranch store chain in America!

[MAP]

**323 STORES IN  
28 STATES....  
AND GROWING!**

2 TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT

[TSC LOGO]

**TRACTOR SUPPLY CO**

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**TOM PARRISH: Page 12**

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**TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT 3**

## TO OUR SHAREHOLDERS

DEAR SHAREHOLDERS:

### OUR BUSINESS--

Tractor Supply dominates a special and unique niche in the retail marketplace. We focus on the rural lifestyle with particular emphasis on customers who describe themselves as recreational farmers and ranchers. Our customers value the outdoors, family independence and self-reliance and, like the rest of us, demand good selection, great value and solid customer service, which is exactly what they find at our stores.

The Tractor Supply merchandise assortment is geared directly to the lifestyle needs of our customers. The products found at Tractor Supply stores can seldom be found elsewhere under one roof. We win with our customers by offering a broad selection of products selected specifically for their needs.

The unique merchandise selection at Tractor Supply is a key advantage; however the major point of differentiation is the shopping experience - handy locations, easy access in and out, superior product knowledge, everyday low prices and quick checkout. Knowledgeable and enthusiastic team members work diligently to make every shopping experience a good one. We even know our regular customers by name.

**[PHOTO]**

**JOE SCARLETT**

Chairman of the Board and  
Chief Executive Officer

### OUR RESULTS--

Same-store sales in 2001 rose 3.8% and total sales increased 12%. Net income rose 29%, yielding earnings of \$2.33 per share up from \$1.87 a share the previous year.

The accelerated effort to build a still better team of store and district managers is producing solid results. The entire process of recruiting, training, and developing the management team has been rebuilt. The quality of the team is improving and turnover is declining.

Tractor Supply has also made tremendous strides improving management of the inventory. We operated the entire year with at least 97% in stock at stores on the 450 "driver items." At the same time, average store inventories were down 9%. We beat our aggressive inventory plans all year yielding substantially improved inventory turn and reduced borrowings.

We successfully opened 18 new stores and remodeled and relocated five more. We continue to improve our demographic models, yielding still stronger performance from new stores. Initial plans call for at least 25 new stores this year and renovation or relocation of about 10 older stores in growth markets.

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## TO OUR SHAREHOLDERS

(CONTINUED)

Our support functions continue to excel. The investments made in computer systems over the last several years are contributing to operating efficiencies and improved inventory turn. The distribution facility investments are also key contributors. The other support functions -- human resources, accounting, real estate, etc. are all working in concert to provide store support and drive profits.

### THE OPPORTUNITY--

At the beginning of 2002, Tractor Supply added 87 new stores from the bankruptcy of a major competitor. The new stores are located in the East and Midwest, in previously researched and targeted growth markets and are in addition to the 25 new stores mentioned previously. After others have liquidated the merchandise, we will quickly reconfigure the fixtures, stock the stores and start serving our new customers. We have already hired many of their best store managers, district managers, sales people, and support professionals.

This is a once-in-a-business-lifetime growth opportunity for Tractor Supply Company. Most of the new locations will be open before mid-year. We have aggressive timelines and comprehensive operational plans.

We will strengthen our purchasing power, broaden our marketing, leverage virtually every expense category, and benefit from the elimination of our largest direct competitor. We are in the midst of our greatest challenge ever, and our team has stepped up like never before.

[PHOTO]

**JIM WRIGHT**

**President and Chief Operating Officer**

### THE FUTURE--

We know our customers, know our merchandise, know our demographics, and provide our customers with a superb shopping experience. We say with great confidence that the leadership team at the top and throughout the organization is the strongest, most aligned, and most aggressive in the company's history.

The future for Tractor Supply is very bright. We dominate a special niche in the retail market and are committed to never ending sales and profit growth.

*/s/ Joe Scarlett*

-----  
*Joe Scarlett*  
*Chairman of the Board and*  
*Chief Executive Officer*

*/s/ Jim Wright*

-----  
*Jim Wright*  
*President and Chief Operating Officer*

**TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT 5**

## FINANCIAL HIGHLIGHTS

(in thousands, except where noted)

|                                               | FISCAL YEAR |           | PERCENT                |
|-----------------------------------------------|-------------|-----------|------------------------|
|                                               | 2001        | 2000      | INCREASE<br>(DECREASE) |
|                                               | -----       | -----     | -----                  |
| OPERATING RESULTS:                            |             |           |                        |
| Net sales                                     | \$849,799   | \$759,037 | 12.0%                  |
| Income before income taxes                    | 36,526      | 27,596    | 32.4                   |
| Net income                                    | 25,774      | 16,390    | 57.3                   |
| Net income per share - basic (\$)             | 2.92        | 1.87      | 56.1                   |
| Net income per share - assuming dilution (\$) | 2.85        | 1.87      | 52.4                   |
| FINANCIAL POSITION:                           |             |           |                        |
| Total assets                                  | 338,482     | 332,296   | 1.6                    |
| Cash and short-term investments               | 8,927       | 9,145     | (2.4)                  |
| Stockholders' equity                          | 181,296     | 155,036   | 16.4                   |
| Long-term debt to equity (%)                  | 12.8        | 40.6      |                        |
| STATISTICS:                                   |             |           |                        |
| Number of stores (#)                          | 323         | 305       | 5.9                    |
| Square footage at year-end                    | 4,164       | 3,905     | 6.6                    |
| Average sales per store (\$)                  | 2,699       | 2,603     | 3.7                    |
| Net sales per square foot (\$)                | 209         | 204       | 2.5                    |

**[NET SALES FOR 1997 - 2001  
(IN MILLIONS)]**

**[GRAPH]**

**NUMBER OF STORES FOR  
1997 - 2001 (AT YEAR END)**

**[GRAPH]**

As with any business, all phases of the Company's operations are subject to influences outside its control. This report contains certain forward-looking statements. These statements include reference to certain factors, any one, or a combination, of which could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, pricing and other competitive factors, the ability to attract, train and retain highly qualified associates, the ability to identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions in general and the seasonality of the Company's business. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.



**WAL\*MART MOVED --  
TRACTOR SUPPLY DID, TOO  
JESSE GUZMAN DOES THE TEXAS TWO-STEP**

Retail sales growth in the Waco, Texas market resulted in Wal\*Mart expanding to a "Supercenter". Tractor Supply had also experienced significant sales growth in our Waco store.

We often find that our growth and Wal\*Mart's growth go hand-in-hand. As a result, over the last five years we have located Tractor Supply stores in a portion of over 30 former Wal\*Mart stores.

**[PHOTO]  
WACO, TEXAS STORE MANAGER JESSE GUZMAN  
PROUDLY STANDS IN FRONT OF HIS NEW STORE.**

Waco is one more example of a growth retail market where people live the rural lifestyle. So this past summer, Store Manager Jesse Guzman and his team did the "Texas two-step". Step one was to turn 26,000 square feet of the former Wal\*Mart into a new generation Tractor Supply store. Step two was to move the existing store to the new facilities. No, this wasn't a dance, but the Waco store team and their customers are dancing for joy at the new expanded facility that is easier to shop and easier to operate.

Jesse has been managing a Tractor Supply store in Waco since 1987 and led a previous successful relocation back in the late 80's. The new Waco facility has a bigger sales floor, a larger side lot, a new front entrance and a much larger parking area.

"The response from our customers has been tremendous," said Jesse. "They have rewarded us with their compliments and their business. Other stores, which have been relocated in this manner, have proven to be very profitable. And I expect the same from Waco."

Tractor Supply is committed to renovating, enlarging and relocating older profitable stores in growth markets. Significant improvements were made last year in Burleson, Texas; Elizabethtown, Kentucky; Warrenton, Virginia; and St. Joseph, Missouri. Sales floors were expanded, side lots were enlarged, new front entrances were added and parking lots were expanded. Other stores have been selected for future similar renovations and relocations.

**TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT 7**

## **COVER STORY**

### **A FARMER, AN EQUINE LARRY, GINA, AND SEAN PROVIDE THE KNOWLEDGE BASE FOR**

In the small town of Meadville, Pennsylvania, Larry, Gina and Sean go about their day at the local Tractor Supply store providing an intangible service to their customers -- expert product knowledge. This knowledge base has helped make the Meadville store very successful.

Tractor Supply stores offer a unique assortment of specialized products geared to the specific needs of our customers. Substantial knowledge is often required to explain product features and benefits. Team members who know the products and the customers are the most important components of success in our stores. No other farm and ranch retail chain offers more product knowledge than Tractor Supply; that's what differentiates us.

### **[PHOTO] MEADVILLE, PENNSYLVANIA EQUINE EXPERT GINA ROBERTS ASSISTS HER CUSTOMER IN SELECTING A BRIDLE.**

"Building The Team" is a mission of every store manager. The message is clear -- the higher the quality of people on the team, the more successful the store. The staffing goal for each store is to have a farmer/rancher, a welder, and an equine enthusiast on the team.

In Meadville, Larry Crom is our semi-retired farmer himself and knows many of his customers by name. He uses his experienced-based product knowledge about the core work of our traditional customer all the time and is constantly sharing that knowledge with his fellow team members.

Gina Roberts lives on a 23-acre farm just outside of Meadville and owns two horses and a mule. She has a passion for these beautiful

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**ENTHUSIAST AND A WELDER  
SUCCESS IN MEADVILLE, PENNSYLVANIA**

**[PHOTO]  
BY USING HER KNOWLEDGE OF HORSES, GINA HELPS  
HER CUSTOMERS DAILY WITH THEIR EQUINE NEEDS.**

daily health and grooming needs. About one third of Tractor Supply's customers own horses, so who better to help equestrian customers at the Meadville Tractor Supply store than Gina. Customers really appreciate Gina's advice on feed, health maintenance and grooming products for their animals.

Sean Coulter is called Mr. Mechanic in Meadville because of his love for car restoration. His understanding of welding products and other tools has made him a great asset to his team. He is a confident and competent welder and an all-around handyman who truly understands his customers' needs. If you have a mechanical question, you can trust Sean for the answer.

At Tractor Supply, we are always seeking to improve our levels of product knowledge. In addition to the knowledge shared by our "experts", we also conduct training classes on many key product lines such as power equipment, animal feed, animal medicines, welders, air compressors, and work clothing. After all, it's the job of each team member to provide legendary customer service.

The success of every Tractor Supply store depends on the knowledge and attitude of each team member. It is everyone's ongoing job to keep learning about the products. The more knowledge we can share with our customers, the better the shopping experience.

Superior customer service is job number one. Our goal is to make every shopping experience a "great shopping experience."

**TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT 9**

## **LEADERSHIP AT WORK**

### **GLORIA USSERY TRAINS HORSES-- SHE ALSO LEADS PEOPLE**

#### **A LADY FROM PENNSYLVANIA IMPROVES BUSINESS SOUTH OF NASHVILLE**

What do training horses and leading people have in common? Both require strength, patience, determination, creativity and hard work. Gloria Ussery has those exact qualities. That's what makes her a great District Manager at Tractor Supply Company.

Gloria began her career with Tractor Supply in 2000 after relocating from Pennsylvania. She helped open 10 new stores in Florida before moving to Tennessee to become District Manager over 11 stores just south of Nashville. Her leadership has catapulted this district to the top third in the Company.

Just as Gloria trains her three horses to run successful field trials, Tractor Supply trains its leaders to provide well thought-out plans and consistent messages through semi-annual Leaders' Meetings.

#### **[PHOTO]**

#### **DISTRICT MANAGER GLORIA USSERY TRAVELS TO THE STORES IN HER DISTRICT WEEKLY TO VISIT WITH HER MANAGERS AND TEAM MEMBERS.**

Tractor Supply actively seeks those leaders who mirror the philosophies of the Company. "I believe in our Company's mission, values and core beliefs," stated Gloria. "This foundation has helped our Company through 63 years of challenge, change and growth. My goal, as a leader, is to instill the same values in my team members."

Tractor Supply encourages its leaders to surround themselves with the right team members. "We have heard over and over again that the most important decision we ever make as leaders is the selection of the people that comprise our teams," said Gloria.

Another important aspect of the leaders' job is listening to their team members. "We encourage our team members to listen to their customers," Gloria added. "As leaders, we must also listen to our teams because the best ideas about driving our business usually come from those closest to the customer."

"I've always believed that developing team members into "stars" is one of the most rewarding aspects of my job," Gloria stated. "If I can encourage initiative, teach, and coach effectively, then those around me will be successful and ultimately Tractor Supply will be even more successful."

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## **ALIGNMENT OF INTERESTS**

### **BENEFITS AND BONUSES**

#### **KIM VELLA TELLS HOW WHAT'S GOOD FOR EMPLOYEES IS ALSO GOOD FOR SHAREHOLDERS**

**[PHOTO]**

**BETSY HATCHER, LESLIE HOLT, KIM VELLA, NANCY BICKEL AND  
BRANDI COX-WILLIAMS WORK HARD TO PROVIDE A BENEFITS PACKAGE  
THAT IS MUTUALLY BENEFICIAL TO TEAM MEMBERS AND TRACTOR SUPPLY.**

"Our goal at Tractor Supply Company is to exceed our customer's expectations," stated Kim Vella, newly promoted Vice President of Human Resources. "It's good for the customer, good for business, good for the team members and good for the shareholders."

According to Kim, the Human Resources Department has the same goal - to take care of their customers - the team members. "Our underlying goal is for our team members to value their benefit plans and more closely bond to the organization," Kim added. "Reduced employee turnover and the ability to attract the right people lowers expenses, which is good for shareholders."

In early 2000, the Human Resources Department conducted a survey of our team members to determine the most valued benefits. After receiving solid feedback from a cross-functional group, Benefits Manager Betsy Hatcher and her team researched the best way to redesign the benefit plans to meet team member needs in the most cost-effective manner.

The team developed two new medical plan options, both with an added wellness benefit and prescription drug card; supplemental and dependent life insurance; company-sponsored life insurance; flexible spending accounts; and a long-term disability plan for exempt team members. This was all accomplished within targeted cost goals.

The response has been overwhelmingly positive. But the Human Resources Department didn't stop there. The next mission: bonus plans.

Jim Wright, Cal Massmann and Kim Vella reviewed the various bonus plans and discovered there was opportunity to better align employee and shareholder interests. "It is important that we are all focused on our profit plan," said Kim. "We need to ensure that our incentive plans are aligned with our goals."

After collaborating with all department heads, the Company's Board of Directors and an outside consulting group, the new bonus plans were rolled out with targets tied to Company goals. Tractor Supply is proud to have every team member participate in a bonus plan.

#### **MISSION ACCOMPLISHED!**

Responsive benefit plans together with solid incentive bonus plans lead to motivated team members, which in turn, lead to improved shareholder value!

#### **TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT 11**

**PROMOTIONS,  
PROMOTIONS,  
PROMOTIONS.....**

**WE PROMOTED POWER EQUIPMENT AND  
WOMEN'S WORK WEAR.  
WE PROMOTED TOM PARRISH TOO!  
[PHOTO]**

**PROMOTING POWER EQUIPMENT...**

Power equipment -- primarily priding lawn mowers -- continues to be a dominant category producing significant sales volume and positioning Tractor Supply as an industry leader. Buyer Robert Bolyard said, "We, along with our manufacturing partner MTD, select the features and benefits for each of our riders. We relentlessly promote this product line in print, and on radio and television with spokesman George Strait. As a result of our promotional efforts, total unit sales in 2001 exceeded our record year 2000 sales in spite of softer total demand."

Power equipment promotion isn't over. In 2002, for the first time ever, Tractor Supply will carry the Cub Cadet line of the very highest quality riding mowers in America. Prior to this year, Cub Cadet and other premium riders have only been available through traditional independent dealers. Senior Vice President Jerry Brase said "We are thrilled to be the first mass retailer in America to offer a truly premium rider line to our customers. We will aggressively promote this product line in 2002."

**PROMOTING WOMEN'S WORK WEAR...**

Our customer base has changed and evolved over the years. Today, 50% of our customers are women-- so what could be more logical than promoting women's work wear? Tractor Supply Company has been experimenting with various pilot assortments of women's work wear for more than three years. The results of all those pilot programs: a complete line that was rolled out late last summer. Aggressive sales promotion, along with a great product assortment, has made the women's work clothing program an overwhelming success.

**PROMOTING FROM WITHIN...**

Another promotion in 2001... Tom Parrish. Tom grew up in the organization and was recently promoted to Vice President-Divisional Merchandise Manager. He began his career with Tractor Supply in 1993 as an Assistant Buyer in merchandising. He was promoted to Buyer in 1995. While a Buyer, Tom successfully fine-tuned his product assortments improving turnover and margins.

Over the years, Tom's merchandise responsibilities have included buying virtually all products for the health, care, growth and containment of equine, livestock and pets, as well as a broad selection of agricultural products, men's work clothing, and lawn and garden power equipment.

Tom and his merchandise team are committed to further driving sales, improving gross margins and continuing the tremendous improvement in the management of inventory. With strengthened leadership and new, innovative product lines, Tractor Supply will continue to expand its domination of the farm and ranch store business.

**IT, POS, SSC, SAP,  
ERP, ATM, DC, RF...  
WHAT DO ALL THESE  
LETTERS MEAN?**

**SANJAY ZACHARIAH TAKES THE  
MYSTERY OUT OF THE LATEST  
TECHNOLOGY DEVELOPMENTS**

**[PHOTO]  
SANJAY ZACHARIAH DISPLAYS THE NEW HARDWARE  
PLATFORM FOR THE POS SYSTEM.**

Although technology may be difficult for many people to understand, it doesn't have to be like a foreign language. At Tractor Supply Company (TSC), the use of technology is a very important part of our competitive advantage.

TSC's Information Technology (IT) Department recently upgraded several of its most important systems including the Point-of-Sale (POS) cash register system. The new hardware platform for POS performs most processes 30- 50% faster than the previous system and provides new opportunities to gain efficiencies.

The store POS systems are connected to systems at the Store Support Center (SSC) that include a Sales Audit System, a Data Warehouse, Email and an SAP Enterprise Resource Planning (ERP) System. This connection is made possible via an ATM (Asynchronous Transfer Mode) / Frame Relay connection, which provides an "always-on" connection to all stores allowing continuous data transmission between the Support Center and the stores.

Sanjay Zachariah, recently promoted Director of Enterprise Systems Development, demystifies these systems for us. "All of the sales transactions come into our Sales Audit system where we balance each store's cash, credit and check transactions, then they are transmitted to our Data Warehouse, which provides actionable and flexible reporting to virtually all of the different departments in the Company. Finally, the sales and receiving information is posted in our SAPERP system where we manage our merchandise assortments, replenishment, and accounting processes," said Sanjay.

Tractor Supply successfully implemented SAP in 1999 and just completed a four-month upgrade to SAP's most current software release, version 4.6c, which provides a platform for future growth.

SO WHAT'S NEXT? "We're working right now on a project to automate all of the processes at our Pendleton, Indiana Distribution Center (DC) for implementation later this year," commented Sanjay. "Through the use of radio frequency (RF) and voice-activated mobile terminals, we will improve the efficiency and accuracy of our inventory management processes, resulting in faster response time and lower required inventory levels."

So the next time you hear some- one say, "The IT Department upgraded the POS system that utilizes an ATM/Frame Relay Connection to the SAPERP system at the SSC;" it won't be a mystery. You will know that Tractor Supply Company has up-to-date store and support center systems that provide the information and controls to effectively manage our business.

**TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT 13**

# FIVE YEAR SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

|                                               | FISCAL YEAR ENDED                                   |                      |                     |                      |                      |
|-----------------------------------------------|-----------------------------------------------------|----------------------|---------------------|----------------------|----------------------|
|                                               | (IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA) |                      |                     |                      |                      |
|                                               | DECEMBER 29,<br>2001                                | DECEMBER 30,<br>2000 | JANUARY 1,<br>2000* | DECEMBER 26,<br>1998 | DECEMBER 27,<br>1997 |
| <b>OPERATING RESULTS:</b>                     |                                                     |                      |                     |                      |                      |
| Net sales                                     | \$ 849,799                                          | \$ 759,037           | \$ 688,082          | \$ 600,677           | \$ 509,052           |
| Gross margin                                  | 228,344                                             | 200,407              | 181,251             | 154,638              | 131,542              |
| Selling, general and administrative expenses  | 178,243                                             | 156,535              | 139,725             | 120,734              | 104,661              |
| Depreciation and amortization                 | 11,254                                              | 9,889                | 7,311               | 5,342                | 4,509                |
| Income from operations                        | 38,847                                              | 33,983               | 34,215              | 28,562               | 22,372               |
| Interest expense, net                         | 4,494                                               | 6,387                | 4,104               | 3,270                | 2,439                |
| Unusual item: gain on life insurance          | 2,173                                               | --                   | --                  | --                   | --                   |
| Income before income taxes                    | 36,526                                              | 27,596               | 30,111              | 25,292               | 19,933               |
| Income tax provision                          | 10,752                                              | 11,206               | 12,237              | 10,492               | 8,172                |
| Net income                                    | \$ 25,774                                           | \$ 16,390            | \$ 17,874           | \$ 14,800            | \$ 11,761            |
| Net income per share - basic(a)               | \$ 2.92                                             | \$ 1.87              | \$ 2.04             | \$ 1.69              | \$ 1.34              |
| Net income per share - assuming dilution(a)   | \$ 2.85                                             | \$ 1.87              | \$ 2.02             | \$ 1.68              | \$ 1.34              |
| Dividends declared per share                  | --                                                  | --                   | --                  | --                   | --                   |
| <b>OPERATING DATA:</b>                        |                                                     |                      |                     |                      |                      |
| Gross margin                                  | 26.9%                                               | 26.4%                | 26.3%               | 25.7%                | 25.8%                |
| Selling, general and administrative expenses  | 21.0%                                               | 20.6%                | 20.3%               | 20.1%                | 20.5%                |
| Income from operations                        | 4.6%                                                | 4.5%                 | 5.0%                | 4.7%                 | 4.4%                 |
| Net income                                    | 3.0%                                                | 2.2%                 | 2.6%                | 2.5%                 | 2.3%                 |
| Number of stores:                             |                                                     |                      |                     |                      |                      |
| Beginning of year                             | 305                                                 | 273                  | 243                 | 228                  | 208                  |
| New stores                                    | 18                                                  | 35                   | 31                  | 15                   | 22                   |
| Closed stores                                 | --                                                  | (3)                  | (1)                 | --                   | (2)                  |
| End of year                                   | 323                                                 | 305                  | 273                 | 243                  | 228                  |
| Number of relocated stores                    | 1                                                   | 1                    | 1                   | 1                    | 1                    |
| Number of remodeled stores(b)                 | 4                                                   | --                   | --                  | --                   | --                   |
| Total selling square footage at period end(c) | 4,164,190                                           | 3,904,958            | 3,448,347           | 3,014,196            | 2,806,864            |
| Average sales per store (in thousands)(d)     | \$ 2,699                                            | \$ 2,603             | \$ 2,682            | \$ 2,542             | \$ 2,300             |
| Net sales per square foot of selling space    | \$ 209                                              | \$ 204               | \$ 214              | \$ 206               | \$ 187               |
| Comparable store sales increase(e)            | 3.8%                                                | .4%                  | 4.4%                | 10.9%                | 3.1%                 |
| <b>BALANCE SHEET DATA (AT END OF PERIOD):</b> |                                                     |                      |                     |                      |                      |
| Working capital                               | \$ 122,309                                          | \$ 133,731           | \$ 117,306          | \$ 95,530            | \$ 82,869            |
| Total assets                                  | 338,482                                             | 332,296              | 302,630             | 264,649              | 224,080              |
| Long-term debt, less current portion(f)       | 23,157                                              | 62,950               | 54,683              | 37,132               | 31,134               |
| Stockholders' equity                          | 181,296                                             | 155,036              | 138,305             | 119,976              | 104,889              |

\* 53-week fiscal year

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

(b) Includes remodelings costing more than \$150,000.

(c) Total selling square footage includes normal selling space and excludes office, stockroom, receiving space and outside selling space.

(d) Average sales per store is calculated based on the weighted average number of days open in the applicable period.

(e) Comparable store sales increases are calculated on a 52-week basis, excluding relocations, using all stores open at least one year.

(f) Long-term debt includes borrowings under the Company's principal revolving credit agreements, term loan agreements and amounts outstanding under its capital lease obligations, excluding the current portions of each.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis describes certain factors affecting Tractor Supply Company's (the "Company") results of operations for the three fiscal years ended December 29, 2001 and its liquidity and capital resources. This discussion should be read in conjunction with the financial statements and notes thereto included elsewhere in this Annual Report. The following discussion and analysis also contains certain historical and forward-looking information. The forward-looking statements 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 the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), business strategy, expansion and growth of the Company's business operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, the Company is identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by or on behalf of the Company.

All phases of the Company's operations are subject to influences outside its control. Any one, or a combination, of these factors could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, pricing and other competitive factors, the ability to attract, train and retain highly qualified associates, the ability to identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions in general and the seasonality of the Company's business. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

The Company's fiscal year ends on the Saturday closest to December 31. Fiscal years 2001 and 2000 consist of 52 weeks, while fiscal year 1999 consists of 53 weeks.

### **OVERVIEW**

Since its founding as a mail order tractor parts business in 1938, the Company has grown to be the largest operator of retail farm and ranch stores in the United States. The Company supplies the daily farming and maintenance needs of its target customers: hobby, part-time and full-time farmers and ranchers, as well as rural customers, contractors and tradesmen. The Company's stores typically range in size from 12,000 to 15,000 square feet of inside selling space and utilize at least as many square feet of outside selling space. An average store displays a comprehensive selection of 12,000 to 14,000 different products including farm maintenance products (fencing, tractor parts and accessories, agricultural spraying equipment and tillage parts); animal and pet products (specialty feeds, supplements, medicines, veterinary supplies and livestock feeders); general maintenance products (air compressors, welders, generators, pumps, plumbing and tools); lawn and garden products (riding mowers, tillers and fertilizers); light truck equipment; and work clothing. The stores are located in the outlying towns of major metropolitan markets and in rural communities.

The Company's current and long-term growth strategy is built on a combination of (1) expanded geographic market presence, achieved through the opening of new retail stores at an approximate annualized rate of 8% to 10% unit growth and (2) enhanced financial performance through comparable store sales increases, achieved through aggressive merchandising programs with an "everyday low prices" philosophy, supported by strong customer service.

Over the past eight fiscal years since the Company's initial public offering in February 1994 (the "Offering"), the Company has opened 177 new retail stores: 13 in fiscal 1994, 20 in fiscal 1995, 23 in fiscal 1996, 22 in fiscal 1997, 15 in fiscal 1998, 31 in fiscal 1999, 35 in fiscal 2000 and 18 in fiscal 2001. These new stores have increased the Company's market presence in the Southwest, primarily in Texas, and in the Southeast, primarily in Tennessee, Kentucky, North Carolina and Florida. This expansion brings the Company's total store count to 323 (in 28 states) as of December 29, 2001. The Company has a base plan to open 25 stores in fiscal 2002 (an approximate 8% unit growth rate) and, with the acquisition of certain real estate properties and lease rights from Quality Stores, Inc., an additional 87 stores. Approximately 13 new stores are scheduled to open in the first quarter of fiscal 2002 with an additional 94 store openings planned by the middle of the year. In total over the past eight fiscal years since the Offering, the Company has opened, relocated or remodeled 205 stores.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Additionally, the Company has placed significant emphasis on its merchandising programs, evaluating the sales and profitability of its products through detailed line reviews, vendor performance measures and modification of the overall product offerings. These efforts, coupled with a strong marketing program and in-depth product knowledge training of store associates, have enhanced sales, improved gross margins and generated improved overall financial performance.

### SEASONALITY AND WEATHER

The Company's business is highly seasonal. Historically, the Company's sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the sale of seasonal products. The Company typically operates at a net loss in the first fiscal quarter of each year. Unseasonable weather, excessive rain, drought, and early or late frosts may also affect the Company's sales. The Company believes, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of its stores.

The Company experiences a buildup of inventory and accounts payable during its first fiscal quarter each year for purchases of seasonal product in anticipation of the April through June selling season and again during its third fiscal quarter in anticipation of the October through December selling season.

The Company's unaudited quarterly operating results for each fiscal quarter of 2001 and 2000 are shown below (dollars in thousands, except per share amounts):

|                                                    | FIRST<br>QUARTER | SECOND<br>QUARTER | THIRD<br>QUARTER | FOURTH<br>QUARTER | TOTAL     |
|----------------------------------------------------|------------------|-------------------|------------------|-------------------|-----------|
| 2001                                               |                  |                   |                  |                   |           |
| Net sales                                          | \$ 162,517       | \$267,490         | \$199,435        | \$220,357         | \$849,799 |
| Gross margin                                       | 42,095           | 71,793            | 53,972           | 60,484            | 228,344   |
| Income (loss) from operations                      | (1,565)          | 23,455            | 4,933            | 12,024            | 38,847    |
| Net income (loss)                                  | (1,849)          | 15,644            | 2,425            | 9,554             | 25,774    |
| Net income (loss) per share - basic                | (.21)            | 1.78              | .28              | 1.08              | 2.92      |
| Net income (loss) per share -<br>assuming dilution | \$ (.21)         | \$ 1.76           | \$ .27           | \$ 1.03           | \$ 2.85   |
|                                                    | FIRST<br>QUARTER | SECOND<br>QUARTER | THIRD<br>QUARTER | FOURTH<br>QUARTER | TOTAL     |
| 2000                                               |                  |                   |                  |                   |           |
| Net sales                                          | \$ 147,482       | \$232,341         | \$175,478        | \$203,736         | \$759,037 |
| Gross margin                                       | 37,604           | 61,585            | 45,117           | 56,101            | 200,407   |
| Income (loss) from operations                      | (338)            | 19,062            | 3,619            | 11,640            | 33,983    |
| Net income (loss)                                  | (975)            | 10,546            | 1,123            | 5,696             | 16,390    |
| Net income (loss) per share - basic                | (.11)            | 1.20              | .13              | .65               | 1.87      |
| Net income (loss) per share -<br>assuming dilution | \$ (.11)         | \$ 1.20           | \$ .13           | \$ .65            | \$ 1.87   |

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items in the Company's Statements of Income expressed as a percentage of net sales:

|                                              | FISCAL YEAR ENDED    |                      |                    |                      |                      |
|----------------------------------------------|----------------------|----------------------|--------------------|----------------------|----------------------|
|                                              | DECEMBER 29,<br>2001 | DECEMBER 30,<br>2000 | JANUARY 1,<br>2000 | DECEMBER 26,<br>1998 | DECEMBER 27,<br>1997 |
| Net sales                                    | 100.0%               | 100.0%               | 100.0%             | 100.0%               | 100.0%               |
| Cost of merchandise sold                     | 73.1                 | 73.6                 | 73.7               | 74.3                 | 74.2                 |
| Gross margin                                 | 26.9                 | 26.4                 | 26.3               | 25.7                 | 25.8                 |
| Selling, general and administrative expenses | 21.0                 | 20.6                 | 20.3               | 20.1                 | 20.5                 |
| Depreciation and amortization                | 1.3                  | 1.3                  | 1.0                | 0.9                  | 0.9                  |
| Income from operations                       | 4.6                  | 4.5                  | 5.0                | 4.7                  | 4.4                  |
| Interest expense, net                        | 0.5                  | 0.8                  | 0.6                | 0.5                  | 0.5                  |
| Unusual item: gain on life insurance         | 0.2                  | --                   | --                 | --                   | --                   |
| Income before income taxes                   | 4.3                  | 3.7                  | 4.4                | 4.2                  | 3.9                  |
| Income tax provision                         | 1.3                  | 1.5                  | 1.8                | 1.7                  | 1.6                  |
| Net income                                   | 3.0%                 | 2.2%                 | 2.6%               | 2.5%                 | 2.3%                 |

## FISCAL 2001 COMPARED TO FISCAL 2000

Net sales increased 12.0% to \$849.8 million in fiscal 2001 from \$759.0 million in fiscal 2000. This increase resulted from the opening of new stores as well as comparable store sales (calculated on a 52-week basis, excluding relocations, using all stores open at least one year), which increased 3.8% for fiscal 2001. The increase in comparable store sales for fiscal 2001 was a result of new merchandising programs and reduced competition in certain markets, offset by general economic challenges in 2001 and the warmer weather patterns in the fourth quarter of fiscal 2001. The Company opened 18 new stores and relocated one store in fiscal 2001. The Company opened 35 new stores, closed three stores and relocated one store in fiscal 2000. At December 29, 2001, the Company operated 323 stores compared to 305 stores at the end of the prior fiscal year.

In fiscal 2002, the Company has a base plan to open 25 stores (an approximate 8% unit growth) and, with the acquisition of certain real estate properties and lease rights from Quality Stores, Inc., an additional 87 stores. Additionally, the Company plans to relocate 10 to 12 stores in fiscal 2002, primarily in the third and fourth quarters.

The gross margin rate increased 0.5 percentage point to 26.9% of sales in fiscal 2001 from 26.4% in fiscal 2000. This gross margin improvement resulted from a reduction in product costs achieved through detailed product line reviews, improved product assortments and other merchandising initiatives.

As a percent of sales, selling, general and administrative expenses increased 0.4 percentage point to 21.0% for fiscal 2001 from 20.6% for fiscal 2000. On an absolute basis, selling, general and administrative expenses increased 13.9% to \$178.2 million for fiscal 2001 from \$156.5 million in fiscal 2000. The increase in expenses on a percentage-of-sales basis is primarily a result of increased investment in store level expenses (primarily payroll and training), higher incentive accruals, offset, in part, by greater leverage from same-store sales performance. The increase in absolute dollars is primarily attributable to costs associated with new store openings (new stores have higher occupancy costs, primarily rent, than the existing store base), as well as increased investment in store payroll, training, and higher incentive accruals.

During fiscal 2001, the Company continued its major media advertising program which includes a national television campaign featuring a celebrity spokesperson, significantly expanded use of radio promotions and increased print advertising. This program is partially funded each year through the support of the Company's vendor partners.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Depreciation and amortization expense increased 13.8% over the prior year due mainly to costs associated with new and relocated stores and remodeled existing stores.

Net interest expense decreased 29.6% in fiscal 2001 from fiscal 2000. The decrease in interest expense reflects reduced borrowings under the senior credit facility, primarily attributable to lower average inventory balances and improved same-store sales performance, as well as reduced short-term borrowing rates during the period.

Exclusive of the non-taxable \$2.1 million gain on the proceeds of life insurance and the \$2.5 million reduction of previously accrued income taxes, the Company's effective tax rate decreased to 38.6% for fiscal 2001 compared to 40.6% for fiscal 2000. The effective tax rate decreased primarily due to a reduction in state income taxes. The Company reevaluated its tax exposure during the quarter ended December 29, 2001; as a result of the favorable resolution of certain tax issues, along with the closing of open tax years, the Company reduced previously accrued income tax liabilities by \$2.5 million.

As a result of the foregoing factors, net income increased 57.3% to \$25.8 million in fiscal 2001 from \$16.4 million in fiscal 2000. As a percent of sales, net income increased 0.8 percentage point to 3.0% of sales in fiscal 2001 from 2.2% of sales in fiscal 2000.

### FISCAL 2000 COMPARED TO FISCAL 1999

Net sales increased 10.3% to \$759.0 million in fiscal 2000 from \$688.1 million in fiscal 1999. This increase resulted primarily from new store openings and relocations, and, to a lesser extent, a comparable store sales increase of .4% (calculated on a 52-week basis, excluding relocations, using all stores open at least one year), while impacted by the inclusion of an additional week of operations in fiscal 1999 (due to the Company's fiscal year-end policy). Comparable store sales performance was significantly affected by the sale of generators and other Y2K-related products in fiscal 1999. The Company substantially mitigated this impact through the successful promotion of special purchase merchandise selected for the maintenance needs of core customers. Also, the Company benefited from favorable cold weather in November and December, which prompted improved sales of winter workwear and heating products. Excluding the effect of generator and other Y2K-related sales, comparable store sales increased 2.9% over fiscal 1999. The Company opened 35 new stores, closed three stores and relocated one store in fiscal 2000. The Company opened 31 new stores, closed one store and relocated one store in fiscal 1999. At December 30, 2000, the Company operated 305 retail farm stores versus 273 stores at the end of the prior fiscal year.

The gross margin rate increased 0.1 percentage point to 26.4% of sales in fiscal 2000 from 26.3% in fiscal 1999. In 1999, the Company experienced a significant change in the year-end mix of certain inventory items and achieved lower purchase costs for other inventory items. These factors contributed to a reduction in the expected LIFO provision and had the effect of increasing the 1999 gross margin rate by 0.3 percentage point. Exclusive of the favorable LIFO effect in 1999, the year 2000 gross margin improvement of 0.4% resulted from a reduction in product costs achieved through detailed product line reviews as well as improved product assortments accomplished through significant remerchandising efforts.

As a percent of sales, selling, general and administrative expenses increased 0.3 percentage point to 20.6% for fiscal 2000 from 20.3% for fiscal 1999. On an absolute basis, selling, general and administrative expenses increased 12.0% to \$156.5 million for fiscal 2000 from \$139.7 million in fiscal 1999. The increase in expenses on a percentage-of-sales basis is primarily a result of costs associated with new stores as well as the leverage loss attributable to the lower than anticipated comparable store sales performance. The increase in absolute dollars is primarily due to costs associated with new store openings (new stores have higher occupancy costs, primarily rent, than the existing store base), as well as increased costs associated with the Company's expanded infrastructure (primarily larger distribution facilities and store support service capacity). These increases were offset, to some extent, by lower incentive accruals, one less week of operating expenses (fiscal 2000 reflects 52 weeks of operations compared to fiscal 1999 which is comprised of 53 weeks) and a non-recurring expense of approximately \$1 million in fiscal 1999 relating to the Company's relocation of two of its distribution centers.

During fiscal 2000, the Company continued its major media advertising program, which includes a national television campaign featuring a celebrity spokesperson, significantly expanded use of radio promotions and increased print advertising. This program is partially funded each year through the support of the Company's vendor partners.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Depreciation and amortization expense increased 35.3% over the prior year due mainly to costs associated with new and relocated stores and increased investment in infrastructure (mainly the merchandise and warehouse management system).

Net interest expense increased 55.6% in fiscal 2000 from fiscal 1999. The increase in interest expense reflects additional borrowings under the senior credit facility to fund the Company's growth and expansion plans, resulting in a higher average outstanding debt balance in fiscal 2000 compared to fiscal 1999.

The Company's effective tax rate remained unchanged at 40.6% for both fiscal 2000 and fiscal 1999.

As a result of the foregoing factors, net income decreased 8.3% to \$16.4 million in fiscal 2000 from \$17.9 million in fiscal 1999. As a percent of sales, net income decreased 0.4 percentage point to 2.2% of sales in fiscal 2000 from 2.6% of sales in fiscal 1999.

### **LIQUIDITY AND CAPITAL RESOURCES**

In addition to normal operating expenses, the Company's primary ongoing cash requirements are those necessary for the Company's expansion, remodeling and relocation programs, including inventory purchases and capital expenditures. The Company's primary ongoing sources of liquidity are funds provided from operations, commitments available under its credit agreements and short-term trade credit. The Company's inventory and accounts payable levels typically build in the first and again in the third fiscal quarters in anticipation of the spring and fall selling seasons.

At December 29, 2001, the Company's inventories had decreased \$0.5 million to \$222.0 million from \$222.5 million at December 30, 2000. This decrease was primarily attributable to improvements in inventory management achieved through an enhanced replenishment system (a 5.8% reduction in average inventory per store compared to December 30, 2000). Short-term trade credit, which represents a source of financing for inventory, increased \$10.7 million to \$81.0 million at December 29, 2001 from \$70.3 million at December 30, 2000. Trade credit arises from the Company's vendors granting extended payment terms for inventory purchases. Payment terms vary from 30 days to 180 days depending on the inventory product.

At December 29, 2001, the Company had working capital of \$122.3 million, which represented a \$11.4 million decrease from December 30, 2000. This decrease resulted primarily from a decrease in inventory (attributable mainly to the factors described above) with an increase in accounts payable and an increase in accrued expenses (mainly due to timing of payments, as well as higher incentive and insurance accruals), offset by an increase in prepaid expenses and other current assets (mainly construction-in-progress costs pertaining to planned sale/leaseback transactions respecting certain 2001 and 2002 new stores) and a decrease in current deferred income taxes. At December 30, 2000, the Company had working capital of \$133.7 million, which represented a \$16.4 million increase from January 1, 2000. This increase resulted primarily from an increase in inventory without a corresponding increase in accounts payable, an increase in prepaid expenses and other current assets (mainly construction-in-progress costs pertaining to planned sale/leaseback transactions respecting certain 2000 and 2001 new stores), an increase in cash and cash equivalents, a decrease in income taxes payable and a decrease in current deferred income taxes.

In November 2000, the Company entered into a three-year unsecured senior revolving credit facility with Bank of America, N.A., as agent for a lender group, (the "Senior Credit Facility") whereby the Company may borrow up to \$125 million. This credit facility was used to refinance all outstanding indebtedness under the existing revolving credit agreement. (The Company amended its then existing credit agreement in November 1999 to increase the maximum total commitments to \$75 million.) At December 29, 2001, the Company had \$15.1 million of borrowings outstanding under the Senior Credit Facility. The Company expects to continue borrowing amounts under the Senior Credit Facility from time to time to fund its growth and expansion programs and as a source of seasonal working capital.

After the close of fiscal year 2001, the United States Bankruptcy Court approved a transaction for the sale of certain assets of Quality Stores, Inc., the Company's single largest national competitor. The Company purchased the real property for 24 stores, the lease rights to 76 stores and the furniture and fixtures from 100 stores. Total consideration, including estimated transaction costs, was approximately \$35 million. The Company may sell and leaseback 20 of the real properties and sell four properties with expected proceeds of approximately \$23 million. Alternatively, the Company may mortgage the related properties or otherwise obtain long-term financing. The Company plans to open 87 of the locations as new Tractor Supply stores by the middle of fiscal 2002 and to relocate existing Tractor Supply stores in nine other locations later in the same year. Capital expenditures to convert the stores to the Tractor

### **TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT 19**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Supply format are expected to be \$12 to \$13 million and inventories for the converted stores are expected to total between \$55 and \$60 million. The Company believes that its cash flow from operations, borrowings available under its Senior Credit Facility and short-term trade credit will be sufficient to fund this expansion.

With this transaction, the Company has committed to a store growth plan in fiscal 2002 which is approximately four times the historical unit store growth plan for a single year. However, the Company has avoided the potential pitfalls of acquiring redundant headquarters and information systems. Further, the Company did not acquire any inventory, thus avoiding the challenges of integrating similar product with dissimilar packaging into its existing stock, as well as avoiding the challenge of liquidating other products which conflicts with the Company's existing product offerings. Rather, the Company has selected only the geographic markets that it believes have the greatest potential (many of which were part of the Company's previously established near-term growth plan) and the Company has already hired many store managers and district managers to operate these new stores. With this experienced retail workforce, the Company has developed an accelerated training program to complete the transition. Further, the Company believes it has the needed distribution capacity at its primary distribution center in Indiana to accommodate this increased volume. Organizational meetings with the Company's key vendor partners have been held, confirming a strong source of support and product supply, with extended payment terms and additional discounts. Enhancements to the Company's information systems that have been made over the last three years should provide the necessary systems support for this aggressive growth. Finally, the required additions to other functional areas (e.g. merchandising, human resources and accounting) that are needed to maintain the appropriate infrastructure for support are also substantially in place.

This aggressive expansion will occur in a more compressed timeframe than the Company's historical store growth. The Company expects to start receiving physical possession of the facilities in early March, with activities to renovate the facilities, train the personnel and stock the stores taking place at a very rapid pace. However, the Company has deployed numerous "store set-up" teams to achieve the state of readiness required to enable all such stores to be opened by July 1, 2002. The Company expects to incur no more than the typical level of per-store training and pre-opening costs associated with any store opening; however, due the more concentrated timeline of the pre-opening activity (approximately four months), the operating results are expected to be slightly dilutive for the full year. The timing of the completion of improvements to the new locations may make a significant difference in the results of operations for the first half and full year.

Operations provided net cash of \$46.8 million in fiscal 2001, provided net cash of \$10.2 million in fiscal 2000 and used net cash of \$7.7 million in fiscal 1999. The generation of cash in fiscal 2001 resulted primarily from net income as well as inventories decreasing at a faster rate than accounts payable compared to the prior year. The generation of cash in fiscal 2000 resulted primarily from net income offset, in part, by inventories increasing at a faster rate than accounts payable compared to the prior year.

Cash used in investing activities of \$10.7 million, \$16.7 million and \$19.6 million for fiscal 2001, 2000 and 1999, respectively, resulted primarily from capital expenditures for new, relocated and remodeled stores and for new merchandise and warehouse management systems, partially offset by proceeds from the sale of certain properties (primarily land and buildings) and the liquidation of certain life insurance policies (in fiscal 2001).

Financing activities in fiscal 2001 used \$36.3 million in cash, which represented a \$45.0 million decrease from the \$8.7 million in cash provided in fiscal 2000. This decrease resulted primarily from net repayments of \$34.9 million under the revolving credit agreement in fiscal 2001 compared to net borrowings of approximately \$11.9 million in fiscal 2000, as well as repayments of long-term debt of \$5.6 million in fiscal 2001 compared to \$3.0 million in fiscal 2000. This decrease was offset, in part, by net proceeds from life insurance benefits of \$2.5 million in fiscal 2001 and \$1.9 million in proceeds from issuance of common stock in fiscal 2001. Financing activities in fiscal 2000 provided \$8.7 million in cash, which represented a \$7.4 million decrease from the \$16.1 million in cash provided in fiscal 1999. This decrease resulted primarily from net borrowings of \$11.9 million under the revolving credit agreement in fiscal 2000 compared to net borrowings of \$19.1 million in 1999.

The Company's capital additions were \$13.6 million, \$17.4 million and \$20.4 million in fiscal 2001, 2000 and 1999, respectively. The majority of the capital additions were for store fixtures, equipment and leasehold improvements for new stores and remodeling of existing stores as well as the merchandise and warehouse management system. The Company expects that its capital expenditures for fiscal 2002 will be approximately \$18 million to \$20 million for the base store openings plan of 25 new stores. Additionally, the Company has spent approximately \$35 million (including transaction costs) for certain assets and lease rights for certain retail stores

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

formerly operated by Quality Stores, Inc. (The Company has received a waiver of the applicable restrictive loan covenants from its bank group for the transaction). This planned spending is predicated on the successful implementation of the Company's growth strategy through approximately 112 planned new store openings and ten to twelve relocations of existing stores. However, the Company cannot predict with certainty the amount of such expenditures because such new stores may be constructed, leased or acquired from others. The estimated cash required to open a new store is approximately \$0.8 to \$1.0 million, the majority of which is for the initial acquisition of inventory and capital expenditures, principally leasehold improvements, fixtures and equipment, and the balance of which is for store opening expenses.

The Company believes that its cash flow from operations, borrowings available under the Senior Credit Facility and short-term trade credit will be sufficient to fund the Company's operations and its capital expenditure plans, including store openings and renovations, over the next several years.

### **LITIGATION**

The Company is involved in various litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect on the Company's consolidated financial position or results of operations. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

### **MARKET RISKS**

The Company is exposed to changes in interest rates primarily from its variable-rate, long-term debt arrangements. Under its current policies, the Company uses interest rate swaps to manage exposure to interest rate changes for a portion of its debt arrangements. Taking into account the effects of interest rate swaps designated as hedges, a hypothetical 100 basis point adverse move (decrease) in interest rates along the entire interest rate yield curve would result in approximately \$300,000 of additional interest expense and would not impact the fair market value of the long-term debt.

Although the Company cannot accurately determine the precise effect of inflation on its operations, it does not believe its sales or results of operations have been materially affected by inflation. The Company has been successful, in many cases, in reducing or mitigating the effects of inflation principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases and selective buying from the most competitive vendors without sacrificing quality.

### **RECENT SEC DISCLOSURE GUIDANCE**

In December 2001 and January 2002, the Securities and Exchange Commission issued financial reporting releases, FR-60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" and FR-61, "Commission Statement about Management Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations," respectively. FR-60 focuses on the need for more discussion about critical accounting policies. FR-61 focuses on additional disclosure relating to liquidity and capital resources, including off-balance sheet arrangements and related party transactions. The extent of the Company's off-balance sheet arrangements are limited to letters of credit, operating leases for buildings and equipment for retail stores, distribution centers and offices (see Notes 2 and 4 to the accompanying financial statements). The Company's only related party transactions are capital lease arrangements on six retail stores entered into in 1986 (see Note 9 to accompanying financial statements). The Company's critical accounting policies are disclosed in Note 1 to the accompanying financial statements.

## **TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT 21**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill amortization ceases when the new standard is adopted. The new rule also requires an initial goodwill impairment assessment in the year of adoption and annual impairment tests thereafter. The Company adopted this Statement effective December 30, 2001. At December 29, 2001 the Company had unamortized negative goodwill of \$175,000. Application of this Statement will result in the write-off of the remaining negative goodwill, increasing income before income taxes by \$175,000 in the first quarter of fiscal 2002.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") which provides clarifications of certain implementation issues within SFAS 121, along with additional guidance on the accounting for the impairment or disposal of long-lived assets. SFAS 144 supersedes SFAS 121 and applies to all long-lived assets (including discontinued operations) and consequently amended APB 30 "Reporting the Effects of Disposal of a Segment of a Business." SFAS 144 develops one accounting model (based on the model in SFAS 121) for long-lived assets that are to be disposed of by sale, as well as addresses the principal implementation issues. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company believes the adoption of this standard will not have a material effect on the Company's financial position or results of operations.

### **REPORT OF INDEPENDENT AUDITORS**

Board of Directors and Stockholders  
Tractor Supply Company

We have audited the consolidated balance sheet of Tractor Supply Company as of December 29, 2001, and the related consolidated statement of income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated balance sheet of Tractor Supply Company as of December 30, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years in the period ended December 30, 2000, were audited by other auditors whose report dated, January 24, 2001, expressed an unqualified opinion on those statements.

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

In our opinion, the 2001 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tractor Supply Company at December 29, 2001, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

*/s/ Ernst & Young LLP*

*Nashville, Tennessee  
January 18, 2002*

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# **CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

|                                              | FOR THE FISCAL YEAR ENDED |                      |                    |
|----------------------------------------------|---------------------------|----------------------|--------------------|
|                                              | DECEMBER 29,<br>2001      | DECEMBER 30,<br>2000 | JANUARY 1,<br>2000 |
| Net sales                                    | \$ 849,799                | \$ 759,037           | \$ 688,082         |
| Cost of merchandise sold                     | 621,455                   | 558,630              | 06,831             |
| Gross profit                                 | 228,344                   | 200,407              | 181,251            |
| Selling, general and administrative expenses | 178,243                   | 156,535              | 139,725            |
| Depreciation and amortization                | 11,254                    | 9,889                | 7,311              |
| Income from operations                       | 38,847                    | 33,983               | 34,215             |
| Interest expense, net                        | 4,494                     | 6,387                | 4,104              |
| Unusual item: gain on life insurance         | 2,173                     | --                   | --                 |
| Income before income taxes                   | 36,526                    | 27,596               | 30,111             |
| Income tax provision                         | 10,752                    | 11,206               | 12,237             |
| Net income                                   | \$ 25,774                 | \$ 16,390            | \$ 17,874          |
| Net income per share - basic                 | \$ 2.92                   | \$ 1.87              | \$ 2.04            |
| Net income per share - assuming dilution     | \$ 2.85                   | \$ 1.87              | \$ 2.02            |

The accompanying notes are an integral part of this statement.

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# **CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts)

|                                                                                                                                                     | DECEMBER 29,<br>2001 | DECEMBER 30,<br>2000 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                                                                                     | -----                | -----                |
| <b>ASSETS</b>                                                                                                                                       |                      |                      |
| Current assets:                                                                                                                                     |                      |                      |
| Cash and cash equivalents                                                                                                                           | \$ 8,927             | \$ 9,145             |
| Accounts receivable, net                                                                                                                            | 6,516                | 7,683                |
| Inventories                                                                                                                                         | 221,979              | 222,535              |
| Prepaid expenses and other current assets                                                                                                           | 14,540               | 7,870                |
|                                                                                                                                                     | -----                | -----                |
| Total current assets                                                                                                                                | 251,962              | 247,233              |
|                                                                                                                                                     | -----                | -----                |
| Land                                                                                                                                                | 6,365                | 6,449                |
| Buildings and improvements                                                                                                                          | 72,682               | 67,985               |
| Machinery and equipment                                                                                                                             | 53,250               | 49,304               |
| Construction in progress                                                                                                                            | 5,699                | 1,605                |
|                                                                                                                                                     | -----                | -----                |
| Accumulated depreciation and amortization                                                                                                           | 137,996              | 125,343              |
|                                                                                                                                                     | (56,008)             | (44,855)             |
|                                                                                                                                                     | -----                | -----                |
| Property and equipment, net                                                                                                                         | 81,988               | 80,488               |
|                                                                                                                                                     | -----                | -----                |
| Deferred income taxes                                                                                                                               | 2,741                | 1,112                |
| Other assets                                                                                                                                        | 1,791                | 3,463                |
|                                                                                                                                                     | -----                | -----                |
| Total assets                                                                                                                                        | \$ 338,482           | \$ 332,296           |
|                                                                                                                                                     | =====                | =====                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                         |                      |                      |
| Current liabilities:                                                                                                                                |                      |                      |
| Accounts payable                                                                                                                                    | \$ 80,974            | \$ 70,294            |
| Accrued expenses                                                                                                                                    | 42,943               | 33,929               |
| Current maturities of long-term debt                                                                                                                | 2,142                | 3,145                |
| Current portion of capital lease obligations                                                                                                        | 309                  | 279                  |
| Income taxes currently payable                                                                                                                      | 3,111                | 1,643                |
| Deferred income taxes                                                                                                                               | 174                  | 4,212                |
|                                                                                                                                                     | -----                | -----                |
| Total current liabilities                                                                                                                           | 129,653              | 113,502              |
| Revolving credit loan                                                                                                                               | 15,117               | 50,007               |
| Other long-term debt                                                                                                                                | 5,537                | 10,131               |
| Capital lease obligations                                                                                                                           | 2,503                | 2,812                |
| Other long-term liabilities                                                                                                                         | 4,376                | 808                  |
|                                                                                                                                                     | -----                | -----                |
| Total liabilities                                                                                                                                   | 157,186              | 177,260              |
|                                                                                                                                                     | -----                | -----                |
| Commitments and contingencies                                                                                                                       |                      |                      |
| Stockholders' equity:                                                                                                                               |                      |                      |
| Common stock, 100,000,000 shares authorized; \$.008 par value; 8,937,651 and 8,792,527 shares issued and outstanding in 2001 and 2000, respectively | 71                   | 70                   |
| Additional paid-in capital                                                                                                                          | 44,916               | 43,009               |
| Retained earnings                                                                                                                                   | 137,731              | 111,957              |
| Accumulated other comprehensive loss, net                                                                                                           | (1,422)              | --                   |
|                                                                                                                                                     | -----                | -----                |
| Total stockholders' equity                                                                                                                          | 181,296              | 155,036              |
|                                                                                                                                                     | -----                | -----                |
| Total liabilities and stockholders' equity                                                                                                          | \$ 338,482           | \$ 332,296           |
|                                                                                                                                                     | =====                | =====                |

The accompanying notes are an integral part of this statement.

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# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(in thousands)

|                                                                                | COMMON<br>STOCK<br>----- | ADDITIONAL<br>PAID-IN<br>CAPITAL<br>----- | RETAINED<br>EARNINGS<br>----- | ACCUMULATED<br>OTHER<br>COMPREHENSIVE<br>LOSS<br>----- | TOTAL<br>STOCKHOLDERS'<br>EQUITY<br>----- |
|--------------------------------------------------------------------------------|--------------------------|-------------------------------------------|-------------------------------|--------------------------------------------------------|-------------------------------------------|
| Stockholders' equity at<br>December 26, 1998                                   | \$ 70                    | \$ 42,213                                 | \$ 77,693                     | \$ 0                                                   | \$ 119,976                                |
| Issuance of common stock under employee<br>stock purchase plan (13,752 shares) |                          | 298                                       |                               |                                                        | 298                                       |
| Exercise of stock options (7,249 shares)                                       |                          | 157                                       |                               |                                                        | 157                                       |
| Net income                                                                     |                          |                                           | 17,874                        |                                                        | 17,874                                    |
|                                                                                | -----                    | -----                                     | -----                         | -----                                                  | -----                                     |
| Stockholders' equity at<br>January 1, 2000                                     | 70                       | 42,668                                    | 95,567                        | 0                                                      | 138,305                                   |
| Issuance of common stock under employee<br>stock purchase plan (23,421 shares) |                          | 341                                       |                               |                                                        | 341                                       |
| Net income                                                                     |                          |                                           | 16,390                        |                                                        | 16,390                                    |
|                                                                                | -----                    | -----                                     | -----                         | -----                                                  | -----                                     |
| Stockholders' equity at<br>December 30, 2000                                   | 70                       | 43,009                                    | 111,957                       | 0                                                      | 155,036                                   |
| Issuance of common stock under employee<br>stock purchase plan (34,715 shares) |                          | 380                                       |                               |                                                        | 380                                       |
| Exercise of stock options (66,439 shares)                                      | 1                        | 1,235                                     |                               |                                                        | 1,236                                     |
| Tax benefit on disqualifying disposition<br>of stock options                   |                          | 292                                       |                               |                                                        | 292                                       |
| Net income (Note 7)                                                            |                          |                                           | 25,774                        |                                                        | 25,774                                    |
| Other comprehensive loss related to<br>interest rate swap agreement, net       |                          |                                           |                               | (1,422)                                                | (1,422)                                   |
| Comprehensive income                                                           |                          |                                           |                               |                                                        | 24,352                                    |
|                                                                                | -----                    | -----                                     | -----                         | -----                                                  | -----                                     |
| Stockholders' equity at<br>December 29, 2001                                   | \$ 71<br>=====           | \$ 44,916<br>=====                        | \$ 137,731<br>=====           | \$ (1,422)<br>=====                                    | \$ 181,296<br>=====                       |

TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT 25

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

|                                                                                             | FOR THE FISCAL YEAR ENDED |                      |                    |
|---------------------------------------------------------------------------------------------|---------------------------|----------------------|--------------------|
|                                                                                             | DECEMBER 29,<br>2001      | DECEMBER 30,<br>2000 | JANUARY 1,<br>2000 |
| Cash flows from operating activities:                                                       |                           |                      |                    |
| Net income                                                                                  | \$ 25,774                 | \$ 16,390            | \$ 17,874          |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |                      |                    |
| Depreciation and amortization                                                               | 11,254                    | 9,889                | 7,311              |
| Gain on disposition of property and equipment                                               | (60)                      | (241)                | (104)              |
| Gain on proceeds from life insurance                                                        | (2,173)                   | --                   | --                 |
| Deferred income taxes                                                                       | (5,667)                   | (3,258)              | (180)              |
| Change in assets and liabilities:                                                           |                           |                      |                    |
| Accounts receivable                                                                         | 1,167                     | (918)                | (1,187)            |
| Inventory                                                                                   | 556                       | (15,210)             | (35,576)           |
| Prepaid expenses and other current assets                                                   | (6,670)                   | (3,025)              | 1,456              |
| Accounts payable                                                                            | 10,680                    | 10,530               | (1,136)            |
| Accrued expenses                                                                            | 9,014                     | (108)                | 4,427              |
| Income taxes currently payable                                                              | 1,468                     | (2,492)              | 1                  |
| Other                                                                                       | 1,462                     | (1,384)              | (605)              |
| Net cash provided by (used in) operating activities                                         | 46,805                    | 10,173               | (7,719)            |
| Cash flows from investing activities:                                                       |                           |                      |                    |
| Capital expenditures                                                                        | (13,569)                  | (17,358)             | (20,368)           |
| Proceeds from sale of property and equipment                                                | 1,376                     | 634                  | 816                |
| Liquidation of life insurance policies                                                      | 1,499                     | --                   | --                 |
| Net cash used in investing activities                                                       | (10,694)                  | (16,724)             | (19,552)           |
| Cash flows from financing activities:                                                       |                           |                      |                    |
| Net borrowings (repayment) under revolving credit agreement                                 | (34,890)                  | 11,881               | 19,126             |
| Repayment of long term debt                                                                 | (5,597)                   | (3,049)              | (2,960)            |
| Principal payments under capital lease obligations                                          | (279)                     | (468)                | (560)              |
| Net proceeds from life insurance death benefit                                              | 2,529                     | --                   | --                 |
| Net proceeds from issuance of common stock                                                  | 1,908                     | 341                  | 455                |
| Net cash provided by (used in) financing activities                                         | (36,329)                  | 8,705                | 16,061             |
| Net increase (decrease) in cash                                                             | (218)                     | 2,154                | (11,210)           |
| Cash and cash equivalents at beginning of year                                              | 9,145                     | 6,991                | 18,201             |
| Cash and cash equivalents at end of year                                                    | \$ 8,927                  | \$ 9,145             | \$ 6,991           |
| Supplemental disclosures of cash flow information:                                          |                           |                      |                    |
| Cash paid during the year for:                                                              |                           |                      |                    |
| Interest                                                                                    | \$ 4,338                  | \$ 6,423             | \$ 4,026           |
| Income taxes                                                                                | 13,770                    | 16,324               | 12,937             |
| Non-cash investing and financing activities:                                                |                           |                      |                    |
| Capital lease-buildings                                                                     | --                        | --                   | 1,581              |

The accompanying notes are an integral part of this statement.

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:**

#### **NATURE OF BUSINESS**

Tractor Supply Company is a specialty retailer, which supplies the daily farm and ranch maintenance needs of its target customers: hobby, part-time and full-time farmers and ranchers, as well as suburban customers, contractors and tradesmen. The Company, which was founded in 1938, operated 323 retail farm stores in 28 states as of December 29, 2001.

#### **FISCAL YEAR**

The Company's fiscal year ends on the Saturday closest to December 31. Fiscal years 2001 and 2000 consist of 52 weeks, while fiscal year 1999 consists of 53 weeks.

#### **PRINCIPLES OF CONSOLIDATION**

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

#### **MANAGEMENT ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States inherently requires estimates and assumptions by management that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures. Actual results could differ from those estimates. Significant estimates and assumptions by management primarily impact the following key financial areas:

##### **INVENTORY VALUATION**

The Company identifies potentially excess and slow-moving inventory by evaluating turn rates and overall inventory levels. Excess quantities are identified through the application of benchmark turn targets and historical sales experience. Further, exposure to inadequate realization of carrying value is identified through analysis of gross margin achievement and markdown experience, in combination with all merchandising initiatives.

##### **INVENTORY SHRINKAGE**

The Company estimates its expected shrinkage of inventory between physical inventory counts by assessing the chain-wide average shrinkage experience rate, applied to the related periods' sales volume. Such assessments are updated on a regular basis for the most recent individual store experiences.

##### **SALES RETURNS**

The Company generally honors customer refunds within 30 days of the original purchase, with the supporting receipt. The Company estimates its reserve for likely customer returns based on the average refund experience in relation to sales for the related period. Due to the seasonality of the Company's sales, the refund experience can vary, depending on the fiscal quarter of measurement.

#### **REVENUE RECOGNITION**

The Company recognizes revenue at the time of customer purchase. A provision is made for expected refunds attributed to customer returns.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### CASH FLOWS

The Company considers temporary cash investments, with a maturity of three months or less when purchased, to be cash equivalents.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has cash and cash equivalents, short-term trade receivables and payables and long-term debt instruments, including capital leases. The carrying values of cash and cash equivalents, trade receivables and trade payables equal current fair value. The terms of the Company's revolving credit agreement and term loan agreement include variable interest rates, which approximate current market rates. (Notes 2 and 3)

### DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company has entered into an interest rate swap agreement as a means of managing its interest rate exposure. This agreement has the effect of converting certain of the Company's variable rate obligations to fixed rate obligations. Net amounts paid or received are reflected as adjustments to interest expense.

On December 31, 2000, the Company adopted Statements of Financial Accounting Standards Nos. 133, 137, and 138 (collectively "SFAS 133") pertaining to the accounting for derivatives and hedging activities. SFAS 133 requires the Company to recognize all derivative instruments in the balance sheet at fair value. The adoption of SFAS 133 impacts the accounting for the Company's interest rate swap agreement. The Company's interest rate swap agreement is designated as a cash flow hedge.

Upon adoption of SFAS 133, the Company recorded the fair value of the interest rate swap in its consolidated balance sheet. Thereafter, the Company adjusts the carrying value of the interest rate swap to reflect its current fair value. The related gain or loss on the swap is deferred in stockholders' equity (as a component of comprehensive income). The deferred gain or loss is recognized in income in the period in which the related interest rate payments being hedged have been recognized as expense. However, to the extent that the change in value of an interest rate swap contract does not perfectly offset the change in the interest rate payments being hedged, that ineffective portion is immediately recognized as expense.

### INVENTORIES

Inventories consist primarily of farm maintenance and animal and pet products, general maintenance products, lawn and garden products, light truck equipment and work clothing. All inventories are stated at the lower of cost or market, with cost being determined on the last-in, first-out (LIFO) method. If the first-in, first-out (FIFO) method of accounting for inventory had been used, inventories would have been approximately \$6,631,000 and \$5,056,000 higher than reported at December 29, 2001 and December 30, 2000, respectively.

### FREIGHT COSTS

The Company incurs various types of transportation and delivery costs in connection with inventory purchases and distribution. Such costs are included as a component of the overall cost of merchandise.

### IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. An impairment is recognized when the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. Accordingly, when the Company commits to relocate or close a store, the estimated unrecoverable costs are charged to operating expenses. Such costs include the estimated loss on the sale of land and buildings, the book value of abandoned fixtures, equipment and leasehold improvements, and a provision for the present value of future lease obligations, less estimated sub-lease income.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### PROPERTY AND EQUIPMENT

The Company owns the land and buildings for 65 of its stores. Property and equipment are carried at cost. The Company's buildings, furniture, fixtures, equipment and computer software are depreciated using the straight-line method over the estimated useful lives of the assets. Improvements to leased premises are amortized using the straight-line method over the life of the lease or the useful life of the improvement, whichever is shorter. The Company's property and equipment is depreciated using the following estimated useful lives:

|                                  | Life          |
|----------------------------------|---------------|
|                                  | ----          |
| Buildings                        | 30 - 35 years |
| Leasehold improvements           | 5 - 15 years  |
| Furniture, fixture and equipment | 5 - 10 years  |
| Computer software                | 3 - 5 years   |

### STORE OPENING COSTS

Non-capital expenditures incurred in connection with opening new stores are expensed as incurred.

### ADVERTISING COSTS

Advertising costs consist of expenses incurred in connection with newspaper circulars, television and radio, as well as newspaper advertisements and other promotions. Expenses incurred are charged to operations at the time the related advertising first takes place. Advertising expenses, net of vendor-provided funding, for fiscal 2001, 2000 and 1999 were approximately \$5,012,000, \$8,063,000, and, \$8,806,000, respectively.

### INCOME TAXES

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

### EXCESS OF FAIR VALUE OF ASSETS ACQUIRED OVER COST

The unallocated excess of fair value of assets acquired over cost (negative goodwill) of approximately \$3,590,000 is being amortized over 20 years on a straight-line basis.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill amortization ceases when the new standard is adopted. The new rule also requires an initial goodwill impairment assessment in the year of adoption and annual impairment tests thereafter. The Company adopted this Statement effective the first day of fiscal 2002. At December 29, 2001 the Company had unamortized negative goodwill of \$175,000. Application of this Statement will result in the write-off of the remaining negative goodwill, increasing income before income taxes by \$175,000 in the first quarter of fiscal 2002.

### STOCK-BASED COMPENSATION PLANS

As allowed by Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," the Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB No.25"), "Accounting for Stock Issued to Employees." Under APB No. 25, compensation expense would be recorded on the date of grant if the current market price of the underlying stock exceeded the exercise price. The Company has adopted the disclosure requirements of SFAS 123.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NET INCOME PER SHARE

Statement of Financial Accounting Standards No. 128 - Earnings per Share ("SFAS 128") requires companies with complex capital structures that have publicly held common stock or common stock equivalents to present both basic and diluted earning per share ("EPS") on the face of the income statement. As provided by SFAS 128, basic EPS is calculated as income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted EPS is calculated using the treasury stock method for options and warrants (Note 8).

### NOTE 2 - REVOLVING CREDIT AGREEMENT:

In November 2000, the Company entered into a three-year unsecured senior revolving credit facility with Bank of America, N.A., as agent for a lender group, (the "Senior Credit Facility") whereby the Company may borrow up to \$125 million. This credit facility was used to refinance all outstanding indebtedness under the existing \$75 million revolving credit agreement. Of the total \$125 million commitment at December 29, 2001, \$3.9 million has been utilized for the issuance of letters of credit relating to insurance policies and import merchandise. The outstanding borrowings under this Senior Credit Facility totaled \$15.1 million at December 29, 2001. The balance of funds available under the Senior Credit Facility may be utilized for borrowings or other letters of credit. All borrowings under the Senior Credit Facility bear interest, at the Company's option, at either the base rate of the agent (4.75% at December 29, 2001) or the LIBOR rate (1.88% at December 29, 2001) plus an additional amount ranging from .75% to 1.5% per annum, adjusted quarterly based on Company performance (1.00% at December 29, 2001). The Company is also required to pay, quarterly in arrears, a commitment fee ranging from .20% to .35% per annum, adjusted quarterly based on Company performance, on the average daily unused portion of the credit line. There are no compensating balance requirements associated with the Senior Credit Facility.

In October 2001, the Company extended the Senior Credit Facility by one year, thus setting the maturity to November 2004.

The Senior Credit Facility contains certain restrictions regarding additional indebtedness; capital expenditures; business operations; guarantees; investments; mergers, consolidations and sales of assets; transactions with subsidiaries or affiliates; and liens. In addition, the Company must comply with certain quarterly restrictions (based on a rolling four-quarters basis) regarding net worth, leverage ratio, fixed charge coverage and current ratio requirements. The Company was in compliance with all covenants at December 29, 2001.

In November 1999, the Company entered into an amendment (the "Third Amendment") to its then existing revolving credit agreement, whereby the Company (i) increased the maximum total commitments available thereunder from \$60 million to \$75 million. There were no changes to any of the other material terms and conditions of the revolving credit agreement as a result of the Third Amendment.

### NOTE 3 - OTHER LONG-TERM DEBT:

In June 1998, the Company entered into a loan agreement (the "Loan Agreement") and term note (the "Term Note") pursuant to which the Company borrowed \$15 million. Until amended as discussed below, the Term Note carried interest at the rate of 6.75% per annum until its maturity in June 2005. The Term Note requires monthly payments equal to \$178,572, plus accrued interest, through June 2005. There are no compensating balance requirements associated with the Loan Agreement. The Loan Agreement is unsecured. In November 2000, in connection with the closing of the Senior Credit Facility, the Company amended the Loan Agreement and Term Note. The terms of the agreement were amended to provide that the existing indebtedness would both mature and bear interest under the same provision as that in the Senior Credit Facility and the restrictive covenants would be modified to be the same as those in the Senior Credit Facility (Note 2). The Company was in compliance with all covenants at December 29, 2001.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In April 1988, the Company issued notes (the "Mortgage Notes") pursuant to a Note Agreement, which was amended in April 1991, February 1992 and July 1993 (the "Mortgage Loan Agreement"). The Mortgage Notes bear interest at a minimum 10.32% rate until their maturity in January 2004. The Mortgage Notes require monthly payments, including interest, of approximately \$109,000 through January 2004. As of December 30, 2000 the Mortgage Notes remaining balance was approximately \$3,456,000, of which \$1,004,000 was included in current maturities of long-term debt. In August 2001, the Company prepaid the remaining outstanding balance on the Mortgage Notes.

### NOTE 4 - LEASES:

The Company leases the majority of its office, warehouse/distribution and retail space, transportation equipment and other equipment under various noncancelable operating leases. The leases have varying terms and expire at various dates through October 2018. The store leases typically have initial terms of between 10 and 15 years, with one to three renewal periods of five years each, exercisable at the Company's option. Generally, most of the leases require the Company to pay taxes, insurance and maintenance costs.

Total rent expense for fiscal 2001, 2000 and 1999 was approximately \$36,733,000, \$31,620,000, and \$25,453,000, respectively.

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

|                                              | CAPITAL<br>LEASES | OPERATING<br>LEASES |
|----------------------------------------------|-------------------|---------------------|
|                                              | -----             | -----               |
| 2002                                         | \$ 581            | \$ 30,675           |
| 2003                                         | 579               | 29,512              |
| 2004                                         | 536               | 28,024              |
| 2005                                         | 497               | 27,090              |
| 2006                                         | 166               | 25,638              |
| Thereafter                                   | 3,691             | 135,669             |
|                                              | -----             | -----               |
| Total minimum lease payments                 | 6,050             | \$ 276,608          |
| Amount representing interest                 | (3,238)           | =====               |
| Present values of net minimum lease payments | 2,812             |                     |
|                                              | -----             |                     |
| Less: current portion                        | (309)             |                     |
|                                              | -----             |                     |
| Long-term capital lease obligations          | \$ 2,503          |                     |
|                                              | =====             |                     |

### NOTE 5- INCOME TAXES:

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

|                       | 2001      | 2000      | 1999      |
|-----------------------|-----------|-----------|-----------|
|                       | -----     | -----     | -----     |
| Current tax expense:  |           |           |           |
| Federal               | \$ 13,159 | \$ 11,200 | \$ 9,774  |
| State                 | 2,358     | 3,264     | 2,643     |
|                       | -----     | -----     | -----     |
| Total current         | 15,517    | 14,464    | 12,417    |
|                       | -----     | -----     | -----     |
| Deferred tax expense: |           |           |           |
| Federal               | (4,154)   | (2,337)   | (172)     |
| State                 | (611)     | (921)     | (8)       |
|                       | -----     | -----     | -----     |
| Total deferred        | (4,765)   | (3,258)   | (180)     |
|                       | -----     | -----     | -----     |
| Total provision       | \$ 10,752 | \$ 11,206 | \$ 12,237 |
|                       | =====     | =====     | =====     |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

|                                           | DECEMBER 29,<br>2001 | DECEMBER 30,<br>2000 |
|-------------------------------------------|----------------------|----------------------|
|                                           | -----                | -----                |
| Current tax assets:                       |                      |                      |
| Inventory valuation                       | \$ 3,857             | \$ 4,288             |
| Other                                     | 3,222                | 2,779                |
|                                           | -----                | -----                |
|                                           | 7,079                | 7,067                |
|                                           | -----                | -----                |
| Current tax liabilities:                  |                      |                      |
| Inventory basis difference                | 6,557                | 10,565               |
| Other                                     | 696                  | 714                  |
|                                           | -----                | -----                |
|                                           | 7,253                | 11,279               |
|                                           | -----                | -----                |
| Net current tax liabilities               | \$ 174               | \$ 4,212             |
|                                           | =====                | =====                |
| Non-current tax assets:                   |                      |                      |
| Capital lease obligation basis difference | \$ 1,206             | \$ 1,368             |
| Fixed assets basis difference             | 904                  | 170                  |
| Interest rate swap                        | 902                  |                      |
| Other                                     | 2,826                | 2,317                |
|                                           | -----                | -----                |
|                                           | 5,838                | 3,855                |
|                                           | -----                | -----                |
| Non-current tax liabilities:              |                      |                      |
| Depreciation                              | 2,345                | 1,868                |
| Capital lease assets basis difference     | 752                  | 875                  |
|                                           | -----                | -----                |
|                                           | 3,097                | 2,743                |
|                                           | -----                | -----                |
| Net non-current tax assets                | \$ 2,741             | \$ 1,112             |
|                                           | =====                | =====                |

Management has evaluated the need for a valuation allowance for all, or a portion of the deferred tax assets and believes that all of the deferred tax assets will more likely than not be realized through the future earnings of the Company.

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

|                                                | 2001      | 2000      | 1999      |
|------------------------------------------------|-----------|-----------|-----------|
|                                                | -----     | -----     | -----     |
| Tax provision at statutory rate                | \$ 12,784 | \$ 9,659  | \$ 10,539 |
| Tax effect of:                                 |           |           |           |
| State income taxes, net of federal tax benefit | 1,369     | 1,577     | 1,721     |
| Life insurance proceeds                        | (926)     | --        | --        |
| Previously accrued income taxes                | (2,500)   | --        | --        |
| Amortization of negative goodwill              | (63)      | (73)      | (63)      |
| Other                                          | 88        | 43        | 40        |
|                                                | -----     | -----     | -----     |
|                                                | \$ 10,752 | \$ 11,206 | \$ 12,237 |
|                                                | =====     | =====     | =====     |

The Company reevaluated its tax exposure during the quarter ended December 29, 2001 and, as a result of the favorable resolution of certain tax issues, along with the closing of open tax years, reduced previously accrued income tax liabilities by \$2.5 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 6 - CAPITAL STOCK:

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

### NOTE 7 - COMPREHENSIVE INCOME:

Comprehensive income includes net income and changes in the fair value of the Company's interest rate swap agreement, which qualifies for hedge accounting. Comprehensive income totaled \$24.4 million for fiscal 2001 compared to \$16.4 million for fiscal 2000. The difference between net income and comprehensive income for fiscal 2001 is the result of a \$1.4 million unrealized loss (net of estimated tax benefit of \$0.9 million) on the swap agreement recognized in accordance with SFAS 133. As of December 29, 2001, the Company expects to reclassify approximately \$0.9 million of net losses on interest rate swaps from accumulated other comprehensive loss to earnings over the next twelve months.

### NOTE 8 - NET INCOME PER SHARE:

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

| 2001                               |           |        |                     |
|------------------------------------|-----------|--------|---------------------|
|                                    | INCOME    | SHARES | PER SHARE<br>AMOUNT |
| Basic net income per share:        |           |        |                     |
| Net income                         | \$ 25,774 | 8,824  | \$ 2.92             |
|                                    |           |        | =====               |
| Dilutive stock options outstanding |           | 217    |                     |
| Diluted net income per share       | \$ 25,774 | 9,041  | \$ 2.85             |
|                                    | =====     | =====  | =====               |
| 2000                               |           |        |                     |
|                                    | INCOME    | SHARES | PER SHARE<br>AMOUNT |
| Basic net income per share:        |           |        |                     |
| Net income                         | \$ 16,390 | 8,782  | \$ 1.87             |
|                                    |           |        | =====               |
| Dilutive stock options outstanding |           | 0      |                     |
| Diluted net income per share       | \$ 16,390 | 8,782  | \$ 1.87             |
|                                    | =====     | =====  | =====               |
| 1999                               |           |        |                     |
|                                    | INCOME    | SHARES | PER SHARE<br>AMOUNT |
| Basic net income per share:        |           |        |                     |
| Net income                         | \$ 17,874 | 8,761  | \$ 2.04             |
|                                    |           |        | =====               |
| Dilutive stock options outstanding |           | 75     |                     |
| Diluted net income per share       | \$ 17,874 | 8,836  | \$ 2.02             |
|                                    | =====     | =====  | =====               |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 9 - RELATED PARTY TRANSACTIONS:

In 1986, the Company entered into capitalized sale-leaseback transactions with certain officers of the Company for seven of its stores. The Company sold, leased back and provided the financing for these properties at estimated fair values totaling \$2,575,000. The related gains arising from the sale of these properties have been deferred and are being amortized on a straight-line basis over the terms of the related leases. Properties under capital leases acquired through sale-leaseback transactions have been reduced by the related deferred gains on the properties and are classified with property and equipment. The leases have basic terms of 20 years with options to renew for two successive five-year terms. The Company has an option to purchase the leased properties after December 31, 1995. Rent payments under these leases were approximately \$361,000 in fiscal 2001, \$393,000 in 2000 and \$425,000 in 1999. All the officers have repaid their outstanding obligations under these notes to the Company. In June 2000, the Company closed operations at one of these seven facilities. In December 2000, the Company paid \$200,000 to terminate the lease on the facility. The balance of the remaining six capitalized lease obligations, included in total capital lease obligations at December 29, 2001, was \$869,000.

Prior to fiscal 2001, the Company leased its management headquarters from a partnership in which certain stockholders of the Company are general partners. In December 2000, the management headquarters was sold to an unrelated third party. The remaining lease term is six years, with the Company having exercised both remaining five-year renewal options in fiscal 1996, with monthly rent set at \$35,000 and \$39,000 per month, respectively. Rent payments made to related parties under this lease were \$385,000 in fiscal 2000 and \$420,000 in fiscal 1999.

### NOTE 10 - RETIREMENT BENEFIT PLAN:

The Company has a defined contribution benefit plan, the Tractor Supply Company Restated 401(k) Retirement Plan (the "Plan"), which provides retirement and other benefits for the Company's employees. Employees become eligible for participation at age 21 and upon completion of 12 consecutive months of employment and 1,000 hours or more of service. The Company matches 100% of the employee's elective contributions up to 3% of the employee's compensation plus 50% of the employee's elective contributions from 3% to 7% of the employee's compensation. In no event shall the total Company match made on behalf of the employee exceed 5% of the employee's compensation in any Plan year. Through January 1, 2000, the employer's contribution is vested 20% each year starting at two years of service. Effective January 1, 2000 the Company amended the Plan ("Amendment No. 2"). In accordance with Amendment No. 2, the Company matches 100% of the employee's elective contributions up to 3% of the employee's compensation plus 50% of the employee's elective contributions from 3% to 6% of the employee's compensation. In no event shall the total Company match made on behalf of the employee exceed 4.5% of the employee's compensation. Effective in fiscal 2000, all employer contributions are immediately 100% vested. Company contributions to the Plan during fiscal 2001, 2000 and 1999 were approximately \$1,022,000 (net of applied forfeitures of \$98,000), \$521,000 (net of applied forfeitures of \$677,000), and \$969,000, respectively.

### NOTE 11 - STOCK-BASED COMPENSATION PLANS:

#### Fixed Stock Option Plan

The Company has stock option plans for officers, directors (including non-employee directors) and key employees which reserves 2,000,000 shares of common stock for future issuance. According to the terms of the plans, the per share exercise price of options granted shall not be less than the fair market value of the stock on the date of grant and such options will expire no later than ten years from the date of grant. In the case of a stockholder owning more than 10% of the outstanding voting stock of the Company, the exercise price of an incentive stock option may not be less than 110% of the fair market value of the stock on the date of grant and such options will expire no later than five years from the date of grant. Also, the aggregate fair market value of the stock with respect to which incentive stock options are exercisable on a tax deferred basis for the first time by an individual in any calendar year may not exceed \$100,000. Options granted generally vest one-third each year beginning on the third anniversary date of the grant and expire after ten years, provided, however, that options granted to non-employee directors vest one-third each year beginning on the first anniversary of the grant.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Plan activity is summarized as follows:

|                                  | NUMBER OF<br>SHARES | WEIGHTED AVERAGE<br>EXERCISE PRICE |
|----------------------------------|---------------------|------------------------------------|
| Outstanding at December 26, 1998 | 514,750             | \$ 19.21                           |
| Exercised                        | (7,249)             | \$ 21.66                           |
| Granted                          | 218,000             | \$ 25.58                           |
| Canceled                         | (124,001)           | \$ 20.91                           |
| Outstanding at January 1, 2000   | 601,500             | \$ 21.14                           |
| Granted                          | 371,000             | \$ 14.13                           |
| Canceled                         | (135,667)           | \$ 19.02                           |
| Outstanding at December 30, 2000 | 836,833             | \$ 18.38                           |
| Exercised                        | (66,439)            | \$ 18.60                           |
| Granted                          | 396,000             | \$ 13.43                           |
| Canceled                         | (119,683)           | \$ 18.04                           |
| Outstanding at December 29, 2001 | 1,046,711           | \$ 16.53                           |

The following table summarizes information concerning currently outstanding and exercisable options:

| YEAR | RANGE OF<br>EXERCISE PRICES | NUMBER<br>OUTSTANDING | OPTIONS OUTSTANDING                                     |                                          |                        |
|------|-----------------------------|-----------------------|---------------------------------------------------------|------------------------------------------|------------------------|
|      |                             |                       | WEIGHTED<br>AVERAGE<br>REMAINING<br>CONTRACTUAL<br>LIFE | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE | OPTIONS<br>EXERCISABLE |
| 1994 | \$21.50 - \$27.00           | 11,000                | 2.19                                                    | \$ 22.00                                 | 11,000                 |
| 1995 | \$21.31 - \$22.13           | 18,000                | 3.10                                                    | \$ 22.07                                 | 18,000                 |
| 1996 | \$21.38 - \$25.13           | 41,083                | 4.07                                                    | \$ 21.38                                 | 41,083                 |
| 1997 | \$17.75 - \$20.00           | 145,394               | 5.47                                                    | \$ 18.52                                 | 100,384                |
| 1998 | \$14.44 - \$24.31           | 14,834                | 6.19                                                    | \$ 19.43                                 | 6,235                  |
| 1999 | \$25.81 - \$26.75           | 134,000               | 7.06                                                    | \$ 25.84                                 | 7,705                  |
| 2000 | \$14.94 - \$15.16           | 264,000               | 8.09                                                    | \$ 14.94                                 | 3,630                  |
| 2000 | \$ 8.95                     | 50,000                | 8.84                                                    | \$ 8.95                                  | --                     |
| 2001 | \$13.43                     | 368,400               | 9.08                                                    | \$ 13.43                                 | --                     |
|      |                             | 1,046,711             |                                                         |                                          | 188,037                |

Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed by FASB Statement No. 123, the Company's pro forma net income and net income per share, for fiscal 2001, 2000 and 1999, would have been as follows (in thousands, except per share amounts):

|                                |             | 2001      | 2000      | 1999      |
|--------------------------------|-------------|-----------|-----------|-----------|
| Net income                     | As reported | \$ 25,774 | \$ 16,390 | \$ 17,874 |
|                                | Pro forma   | \$ 24,852 | \$ 15,667 | \$ 17,179 |
| Net income per share - basic   | As reported | \$ 2.92   | \$ 1.87   | \$ 2.04   |
|                                | Pro forma   | \$ 2.82   | \$ 1.79   | \$ 1.96   |
| Net income per share - diluted | As reported | \$ 2.85   | \$ 1.87   | \$ 2.02   |
|                                | Pro forma   | \$ 2.75   | \$ 1.79   | \$ 1.94   |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions.

|                               | 2001    | 2000    | 1999     |
|-------------------------------|---------|---------|----------|
|                               | -----   | -----   | -----    |
| Expected volatility           | 43.8%   | 39.8%   | 37.8%    |
| Risk-free interest rate       | 5.1%    | 5.5%    | 6.5%     |
| Average expected life (years) | 7.5     | 7.25    | 7.5      |
| Dividend yield                | 0%      | 0%      | 0%       |
| Weighted average fair value   | \$ 7.43 | \$ 7.11 | \$ 12.95 |

### Employee Stock Purchase Plan

The Company provides an Associate Stock Purchase Plan (the "ASPP") whereby eligible employees of the Company have the opportunity to purchase, through payroll deductions, shares of common stock of the Company at a 15% discount. Pursuant to the terms of the ASPP, the Company issued 34,715, 23,421 and 13,752 shares of common stock in fiscal 2001, 2000 and 1999, respectively.

### NOTE 12 - GAIN ON PROCEEDS FROM LIFE INSURANCE:

In April 2001, a former executive of the Company, on whom the Company carried a life insurance policy, passed away. As a result of the related coverage, the Company realized a \$2.1 million gain on the benefit proceeds.

### NOTE 13 - LITIGATION:

The Company is involved in various litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect on the Company's consolidated financial position or results of operations. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

### NOTE 14 - SUBSEQUENT EVENT:

On December 31, 2001, the Company, through a recently formed joint venture with Great American Group, Gordon Brothers Retail Partners, LLC and DJM Asset Management LLC, was the successful bidder at a liquidation bankruptcy auction for the buildings, improvements, fixtures and lease rights of certain retail stores formerly operated by Quality Stores, Inc., a debtor and debtor in possession under Chapter 11 of the United States Bankruptcy Code. The bid, which has been approved by the United States Bankruptcy Court for the Western District of Michigan, provides for the Joint Venture to act as exclusive agent for the disposition of substantially all of the store assets located in New York, Pennsylvania, Virginia, Maryland, West Virginia, Delaware, Kentucky, Ohio, Indiana and Michigan. The bid totaled \$34 million and was funded entirely through the Senior Credit Facility.

Under its agreement with the other joint venture partners, the Company has agreed to purchase the buildings for 24 retail stores, to assume the building lease rights for 76 additional retail stores and to purchase the related equipment, furniture and fixtures. After a complete liquidation of the existing inventory by other members of the joint venture, the Company expects to reopen 87 retail stores in its own format by the middle of fiscal 2002, to relocate existing stores in nine other locations and to sell four of the properties.

## BOARD OF DIRECTORS AND OFFICERS

### BOARD OF DIRECTORS

**JOSEPH H. SCARLETT, JR.**

Chairman of the Board and Chief Executive Officer Tractor Supply Company

**THOMAS O. FLOOD**

Retired Senior Vice President  
Tractor Supply Company

**JOSEPH D. MAXWELL (3)**

Retired Vice President  
Tractor Supply Company

**S.P. BRAUD (1)(\*)(2)(3)(4)**

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

**GERARD E. JONES (1)(2)(3)(\*)**

Of Counsel to  
Shipman & Goodwin LLP

**SAM K. REED (1)(2)(\*)(4)(\*)**

Vice Chairman and Director  
Kellogg Company

**JOSEPH M. RODGERS (1)(2)(4)**

Chairman of the Board  
The JMR Group, an investment firm, and  
former U.S. Ambassador to France

(1) Audit Committee

(2) Compensation Committee

(3) Nominating Committee

(4) Corporate Governance Committee

\* Committee Chairman

[PHOTO]

**TRACTOR SUPPLY SENIOR EXECUTIVES:**

**JERRY BRASE, STAN RUTA, JIM WRIGHT, JOE SCARLETT AND CAL MASSMANN.**

### OFFICERS

**JOSEPH H. SCARLETT, JR.**

**Chairman of the Board and Chief Executive Officer**

**JAMES F. WRIGHT**

**President and Chief Operating Officer**

**GERALD W. BRASE**

**Senior Vice President-Merchandising**

**CALVIN B. MASSMANN**

Senior Vice President-  
Chief Financial Officer and Treasurer

**STANLEY L. RUTA**  
**Senior Vice President-Store Operations**

**JOHN W. ATKINS**  
**Vice President-Information Technology**

**BLAKE A. FOHL**  
**Vice President-Marketing**

**MARK D. GILLMAN**  
**Vice President-Store Operations**

**LAWRENCE GOLDBERG**  
**Vice President-Logistics**

**STEPHEN E. HULL**  
**Vice President-Real Estate**

**DAVID C. LEWIS**  
Vice President-Controller and  
Corporate Secretary

**GARY M. MAGONI**  
**Vice President-Store Operations**

**THOMAS P. PARRISH**  
**Vice President-Divisional Merchandise Manager**

**KIMBERLY D. VELLA**  
**Vice President-Human Resources**

**TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT 37**



## CORPORATE INFORMATION

### CORPORATE ADDRESS:

Tractor Supply Company  
320 Plus Park Boulevard  
Nashville, Tennessee 37217  
(615) 366-4600

### TRANSFER AGENT AND REGISTRAR

EquiServe Trust Company, N.A.  
P.O. Box 43010  
Providence, RI 02940-3010  
(781) 575-3400

### INDEPENDENT AUDITORS

Ernst & Young LLP  
Bank of America Plaza  
414 Union Street, Suite 2100  
Nashville, Tennessee 37219

### STOCK EXCHANGE LISTING

The Nasdaq National Market  
Ticker Symbol: TSCO

### INTERNET ADDRESS:

[www.tractorsupplyco.com](http://www.tractorsupplyco.com)

### ANNUAL MEETING

The Annual Meeting of  
Stockholders will be held at  
10:00 a.m., April 18, 2002 at the  
Company's Store Support Center,  
320 Plus Park Boulevard,  
Nashville, Tennessee, 37217

### NUMBER OF STOCKHOLDERS

As of January 31, 2002 there were approximately 76 stockholders of record. This number excludes individual stockholders holding stock under nominee security position listings.

### FORM 10-K

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, will be sent to any stockholder upon written request to the Company.

### QUARTERLY STOCK PRICE RANGE

|                | HIGH     | LOW      |
|----------------|----------|----------|
|                | -----    | -----    |
| FISCAL 2001:   |          |          |
| First Quarter  | \$ 14.94 | \$ 8.50  |
| Second Quarter | \$ 16.45 | \$ 13.50 |
| Third Quarter  | \$ 24.48 | \$ 14.80 |
| Fourth Quarter | \$ 34.98 | \$ 17.47 |
|                |          |          |
|                | HIGH     | LOW      |
|                | -----    | -----    |
| FISCAL 2000:   |          |          |
| First Quarter  | \$ 21.00 | \$ 14.63 |
| Second Quarter | \$ 22.00 | \$ 12.00 |
| Third Quarter  | \$ 17.19 | \$ 9.69  |
| Fourth Quarter | \$ 11.06 | \$ 6.50  |

THE TRACTOR SUPPLY FLAG CORPS PREPARES TO RAISE "OLD GLORY" AT THE FLAG DEDICATION AND CEREMONY ON NOVEMBER 9, 2001.

ROA\_004282

SCDOR\_006716



**THIS IS TRACTOR SUPPLY COMPANY**

**[PHOTO]**

**JOE SCARLETT AND SENIOR MANAGEMENT BURST THROUGH A BANNER  
DURING THE VENDOR CONFERENCE TO "PUMP" UP THE VENDOR PARTNERS.**

**[PHOTO]**

**IN JULY OF 2001, PRESIDENT GEORGE W. BUSH MET WITH REPRESENTATIVES OF THE  
FARMING AND RANCHING INDUSTRY AT THE BILLINGS, MONTANA TRACTOR SUPPLY STORE.**

**[PHOTO]**

**TRACTOR SUPPLY STORES NATIONWIDE SHOWED THEIR  
SUPPORT AFTER THE TRAGIC EVENTS OF SEPTEMBER 11.**

**TRACTOR SUPPLY COMPANY 2001 ANNUAL REPORT 39**

**WHETHER YOU  
OWN ONE ACRE  
OR 1,000 --**

**YOU'LL KEEP  
HUMMING  
OUR TUNE**

Why? Because we've got everything  
you need to get the job done.

So whether it's farm supplies, pet  
supplies, horse feed, power equipment,  
or work clothing, stop by  
Tractor Supply and see why we're  
the largest farm and ranch store  
chain in America.

For more information on Tractor  
Supply Company, please call us at  
615-366-4600, or check out our  
website at [tractorsupplyco.com](http://tractorsupplyco.com)

**[PHOTO]**

**GEORGE STRAIT**

**[LOGO]**

**TRACTOR SUPPLY CO**

## EXHIBIT 23.1

### CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in: (1) this Annual Report (Form 10-K) of Tractor Supply Company; (2) the Registration Statement on Form S-8 (File No. 333-10699) and related Prospectus pertaining to the Tractor Supply Company 1996 Associate Stock Purchase Plan; and (3) the Registration Statement on Form S-3 (File No. 333-35317) and related Prospectus pertaining to the Tractor Supply Company Restated 401(k) Retirement Plan, of our report dated January 18, 2002 with respect to the 2001 consolidated financial statements included in the 2001 Annual Report to Stockholders of Tractor Supply Company.

*/s/ Ernst & Young LLP  
Nashville, Tennessee  
March 22, 2002*

## EXHIBIT 23.2

### CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-10699) of Tractor Supply Company of our report dated January 24, 2001 appearing on page 13 in this Annual Report on Form 10-K.

*/s/ PricewaterhouseCoopers LLP  
Nashville, Tennessee  
March 22, 2002*

## EXHIBIT 23.3

### CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-35317) of Tractor Supply Company of our report dated January 24, 2001 appearing on page 13 in this Annual Report on Form 10-K.

*/s/ PricewaterhouseCoopers LLP  
Nashville, Tennessee  
March 22, 2002*

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**End of Filing**

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# OUT HERE

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★ 2002 ANNUAL REPORT ★

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# ★ THE GOOD LIFE IS OUT HERE ★

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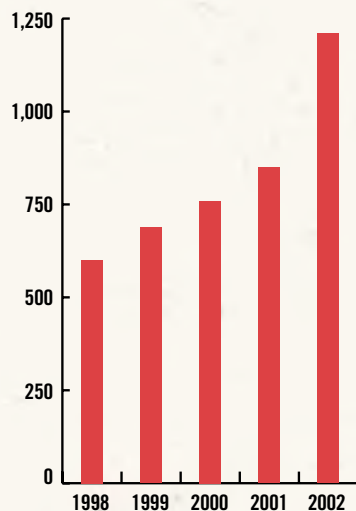
# ★ COMPANY PROFILE ★

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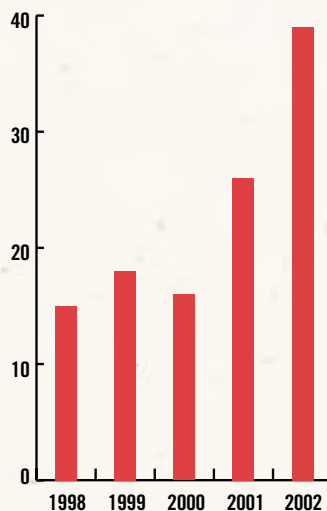
Tractor Supply Company is the largest operator of retail farm and ranch stores in the United States. Our focus is on supplying the lifestyle needs of recreational farmers and ranchers, and serving the maintenance needs of those who enjoy the rural lifestyle, as well as tradesmen and small businesses. Our stores are located in towns outlying major metropolitan markets and in rural communities. This niche uniquely positions us to offer a wide, yet very select, assortment of products: (1) livestock and pet care products, including everything necessary for their health, growth and containment; (2) maintenance products for agricultural and rural use; (3) hardware and tool products; (4) seasonal products, including lawn and garden power equipment; (5) truck, trailer and towing products; and (6) work clothing for the entire family.

## ★ FINANCIAL HIGHLIGHTS ★

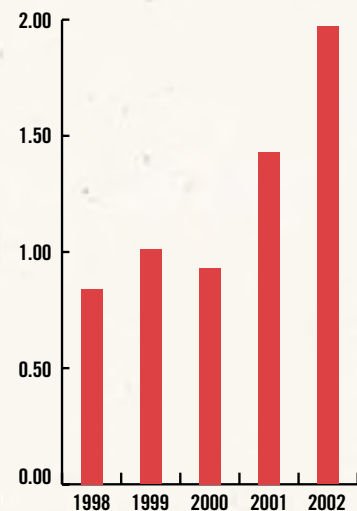
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**NET SALES**  
**1998-2002**  
(in millions)



**NET INCOME**  
**1998-2002**  
(in millions)



**EARNINGS PER SHARE**  
**1998-2002**  
(fully diluted; post-split)

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# ★ LETTER TO SHAREHOLDERS ★

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## ★ CONSISTENCY IS THE KEY ★

Consistency may be the best word to describe the source of our continuing success. We know our customers very well, and we consistently focus on their basic needs without getting sidetracked into different and unrelated product categories. We remain committed to serving those who live **OUT HERE**.

We are proud of our 2002 performance—record sales, strong same-store sales growth (the most important measure in retailing), record profits and 113 new store openings. This performance enables us to continue investing in our team and strengthening the overall leadership.

At Tractor Supply Company, we consistently promote customer service. We constantly tell “success stories” about acts of extraordinary customer service: going the extra mile and doing whatever it takes. We have a clear mission and a solid value structure that are the backbone of our purpose and culture. We’ve built an infrastructure that gives our team members the tools to be the absolute best retailers in America.

We are consistent in our retail format. Tractor Supply stores are relatively small and will stay that way. Our product assortment is significantly differentiated from that of the “big box” chains. We’re more focused and clearly aligned with our target customers’ basic needs.

We stay consistently in-stock on the basic products. We have strong inventory replenishment execution, and we’ve accelerated inventory turnover. At the same time, we have more test products and test programs in our pipeline than ever before. The more successful tests we have today, the more new products we will introduce and sell tomorrow.

The bottom line is consistency. We’re consistent in our beliefs and our practices, and our commitments to our

team members, customers and shareholders. Every decision we make is first filtered through our core Mission and Values. It is this kind of consistency that provides alignment and focus. It is the foundation upon which we build stability of performance.

We are excited about our future. Our strategy remains clearly focused on the following drivers of success:

## ★ A GREAT PLACE TO SHOP ★

We are on a mission to ensure that Tractor Supply Company is a great place to shop today and an even better place to shop tomorrow. We work diligently to build lifetime relationships and have earned a unique position in the hearts and minds of our customers. You’ll find that we actually know many of our regular customers by name. They send their friends to our stores. They trust us.

## ★ A GREAT PLACE TO WORK ★

We strive to make Tractor Supply Company a great place to work. Our team members have every opportunity to grow and advance. We carefully select the best people for our team—people with winning attitudes and heartfelt enthusiasm for the rural lifestyle. We welcome new team members into our organization with orientation and training that works to ensure their success. The results thus far: lower turnover and *team member pride* in Tractor Supply Company.

## ★ A GREAT PLACE TO INVEST ★

We feel confident that by consistently doing the basics right—day in and day out—we will produce the best long-term financial results for Tractor Supply Company. We believe in making solid, long-term decisions that are in the best interest of our shareholders. We consistently believe everything can and should be improved. When we do the basics right, the good numbers will follow—making Tractor Supply Company “a great place to invest.”





# ★ LETTER TO SHAREHOLDERS (continued) ★

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## ★ BRAND INITIATIVE ★

This year we celebrate our 65th anniversary—65 years of the Tractor Supply Company brand. We have steadily built our brand by providing legendary customer service. We do “whatever it takes” to satisfy our customers! We build our brand by selling quality products at competitive prices. Our customers have always known Tractor Supply Company means good value. Recent consumer research describes Tractor Supply Company as “a brand you can trust.” We’re proud of our brand and strive to make it the center of everything we do.

## ★ OPERATING EFFICIENCY ★

Tractor Supply Company is committed to the *growth and development of our team members*. This commitment is reflected in the formation of Tractor Supply University, popularly known as “Tractor U.” We have partnered with Belmont University in Nashville to create strong college-level development programs to build our leadership team for the future.

We are also committed to the absolute best *product assortment* for our customers. We are driven by new product testing and speed to market. At the same time, we are committed to cut time and cost out of the supply chain. Inventory turnover has improved significantly in recent years, and we anticipate additional future improvements. We are implementing scores of “best business practices” — all leading to greater operating efficiency.

## ★ STORE GROWTH ★

Last year, we grew our store base substantially with a major asset purchase—seizing a huge opportunity. We

currently have over 600 additional new store market opportunities and are constantly reviewing more potential new store markets. We plan to open between 30 and 35 new stores in 2003.

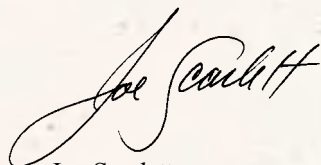
In future years, we plan to grow our store count at an 8%-10% annual rate. In addition, we will upgrade and relocate older stores. By the end of 2006, we will have “updated” all our real estate.

After the nearly double-digit same-store sales growth in 2002, we are estimating same-store sales growth at approximately 3% in 2003. Beyond this year, we expect annual same-store sales growth to average between 4.5% and 5.0%.

## ★ SUCCESS STORIES ★

Success stories run throughout our Company: how Bobby turned a customer’s apprehension into a \$35 sale, how Susan helped a customer find a specific product in her TSC store and how Dale went the extra mile in customer service. *Satisfaction is guaranteed at Tractor Supply Company.* Everyone has the authority to do whatever it takes. We’re dedicated to improving the shopping experience in our stores and being the *best* team in retailing. Our goal is to be *first* in our customers’ eyes. We will achieve this with a clear, long-term vision, top-notch people, and a first-class brand.

Tractor Supply Company is a solid and consistent organization with a very bright future. We believe **THE GOOD LIFE IS OUT HERE**, and we’re glad you are with us!



Joe Scarlett,  
Chairman of the Board  
and CEO



Jim Wright,  
President and COO

# ★ MISSION & VALUES ★

**OUT HERE, WHERE OUR CUSTOMERS LIVE,  
A CLEAR STATEMENT OF MISSION AND A SOLID VALUE STRUCTURE  
MAKE LIVING JUST PLAIN EASIER.**



## MISSION

*To work hard, have fun and  
make money by providing  
legendary service and great  
products at everyday low prices.*

**OUR BUSINESS:**  
We are committed to be the most dependable supplier of basic maintenance products to farm, ranch and rural customers.

**OUR PEOPLE:**  
We value honesty, integrity, mutual respect and teamwork above all else.  
We are an open company where everyone has the information and tools to grow and excel.  
We encourage risk taking, celebrate initiative and reward success.

**OUR STAKEHOLDERS:**  
We are a growth company.  
We consistently grow sales and profits by continuous improvement throughout the company.



## VALUES

**ETHICS**  
Do the "right thing" and always encourage others to do the right, honest and ethical things.

**RESPECT**  
Treat others with the same personal and professional consideration we expect for ourselves.

**BALANCE**  
Manage your time for both business and personal success.

**WINNING ATTITUDE**  
Have a "can-do" attitude. Be positive, upbeat, and focused. We are winners!

**COMMUNICATION**  
Share information, ask questions, listen effectively, speak thoughtfully, and let ideas live.

**DEVELOPMENT**  
Learn from each other. Teach, coach, and listen. Create an environment where everyone can be a "star".

**TEAMWORK**  
Value different viewpoints. Execute the agreed-upon plans. Together, everyone achieves more!

**CHANGE**  
Accept it. Embrace it. Initiate it. Do everything better, faster, and cheaper.

**INITIATIVE**  
Seek opportunities. Use good judgement. Take intelligent risks. Champion ideas.

**ACCOUNTABILITY**  
Know your responsibilities. Live up to your commitments.

For 65 years, Tractor Supply Company's performance has been built on the solid foundation of our Mission and Values. These are our marching orders. They are the words and ideas we live by. Adherence to these guiding principles has proven to be the backbone of our success.

Customer satisfaction goes a long way in the retail business and is the only way to guarantee repeat customers. Our team members strive to provide legendary service and a wide variety of products at everyday low prices. Tractor Supply Company recognizes that in order to gain customer respect and loyalty, our brand must be protected. Doing all we can to ensure customer satisfaction and going the extra mile to make positive things happen does just that.

We have a strong work ethic and a commitment to a workplace where everyone has the opportunity to succeed. Our team members are encouraged to adopt these principles and refer to them regularly. We have set a moral standard within the Company which holds each of us accountable. We believe that by living out these values, everyone benefits—our customers, our team members and our shareholders.

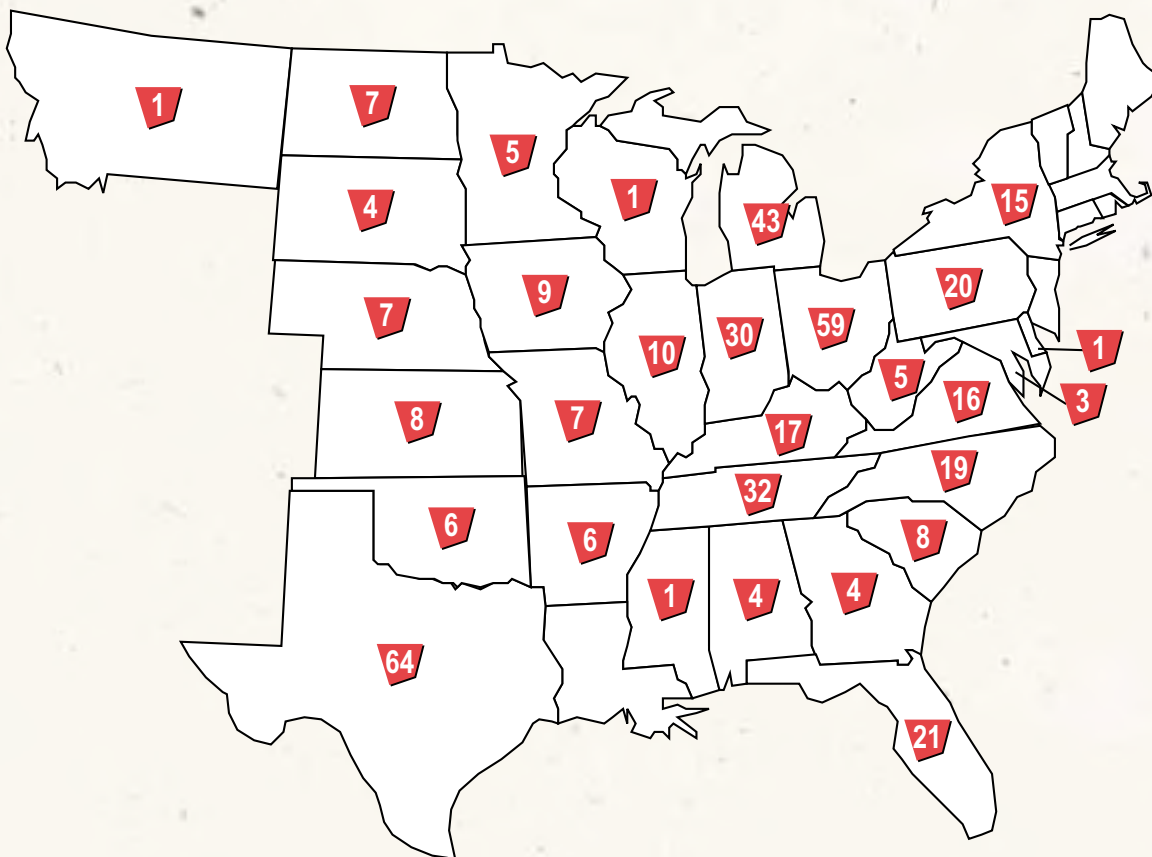
Tractor Supply Company has the products for every aspect of **THE GOOD LIFE**—livestock and pet products, farm and ranch maintenance, hardware and tools, lawn tractors, heating equipment, truck/towing/trailer products and work clothing for the entire family. Tractor Supply Company is ready and eager to meet the needs of all who believe **THE GOOD LIFE IS OUT HERE.**

We are ready to meet this new year head-on and seize new opportunities. As a forward-thinking company committed to growth, Tractor Supply Company remains forever flexible and accepting of change. But as keepers of the Mission and Values written above, all team members are as rigid and stubborn as they come!



# ★ EXPANSION ★

**OUT HERE, WE'RE GROWING,  
SO YOU CAN GET THE STUFF YOU NEED.**



**STORE TOTALS BY STATE, YEAR ENDED 2002**

We provide the good life for our customers by being **OUT HERE** where our customers need us. Our team members work hard to understand every customer. That's why we continue to grow—we need to be where our customers are!

Tractor Supply Company embarked on a rare and exciting opportunity in early 2002. We implemented the largest new store expansion in Company history by purchasing 100 locations from a competitor. With 110% effort from all team members, the expansion was successfully achieved, and we experienced fabulous growth in 2002.

Most importantly, thousands of new customers discovered the Tractor Supply shopping experience and now know where to go for the products and expertise they need to support their rural lifestyle. Tractor Supply Company is **OUT HERE** and we have **THE STUFF YOU NEED**.



## FIVE YEAR SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

|                                                | Fiscal Year Ended                                          |                  |                  |                  |                  |
|------------------------------------------------|------------------------------------------------------------|------------------|------------------|------------------|------------------|
|                                                | <i>(in thousands, except per share and operating data)</i> |                  |                  |                  |                  |
|                                                | Dec. 28,<br>2002                                           | Dec. 29,<br>2001 | Dec. 30,<br>2000 | Jan. 1,<br>2000* | Dec. 26,<br>1998 |
| <b>Operating Results:</b>                      |                                                            |                  |                  |                  |                  |
| Net sales                                      | \$ 1,209,990                                               | \$ 849,799       | \$ 759,037       | \$ 688,082       | \$ 600,677       |
| Gross profit                                   | 342,187                                                    | 228,344          | 200,407          | 181,251          | 154,638          |
| Selling, general and administrative expenses   | 260,290                                                    | 178,243          | 156,535          | 139,725          | 120,734          |
| Depreciation and amortization                  | 16,457                                                     | 11,254           | 9,889            | 7,311            | 5,342            |
| Income from operations                         | 65,440                                                     | 38,847           | 33,983           | 34,215           | 28,562           |
| Interest expense, net                          | 4,707                                                      | 4,494            | 6,387            | 4,104            | 3,270            |
| Unusual item: gain on life insurance           | —                                                          | 2,173            | —                | —                | —                |
| Income before income taxes                     | 60,733                                                     | 36,526           | 27,596           | 30,111           | 25,292           |
| Income tax provision                           | 21,963                                                     | 10,752           | 11,206           | 12,237           | 10,492           |
| Net income                                     | <u>\$ 38,770</u>                                           | <u>\$ 25,774</u> | <u>\$ 16,390</u> | <u>\$ 17,874</u> | <u>\$ 14,800</u> |
| Net income per share - basic (a)               | <u>\$ 2.15</u>                                             | <u>\$ 1.46</u>   | <u>\$ 0.93</u>   | <u>\$ 1.02</u>   | <u>\$ 0.85</u>   |
| Net income per share - diluted (a)             | <u>\$ 1.97</u>                                             | <u>\$ 1.43</u>   | <u>\$ 0.93</u>   | <u>\$ 1.01</u>   | <u>\$ 0.84</u>   |
| Dividends declared per share                   | —                                                          | —                | —                | —                | —                |
| <b>Operating Data (percent to sales):</b>      |                                                            |                  |                  |                  |                  |
| Gross profit                                   | 28.3%                                                      | 26.9%            | 26.4%            | 26.3%            | 25.7%            |
| Selling, general and administrative expenses   | 21.5%                                                      | 21.0%            | 20.6%            | 20.3%            | 20.1%            |
| Income from operations                         | 5.4%                                                       | 4.6%             | 4.5%             | 5.0%             | 4.7%             |
| Net income                                     | 3.2%                                                       | 3.0%             | 2.2%             | 2.6%             | 2.5%             |
| <b>Number of stores:</b>                       |                                                            |                  |                  |                  |                  |
| Beginning of year                              | 323                                                        | 305              | 273              | 243              | 228              |
| New stores                                     | 113                                                        | 18               | 35               | 31               | 15               |
| Closed stores                                  | (3)                                                        | —                | (3)              | (1)              | —                |
| End of year                                    | <u>433</u>                                                 | <u>323</u>       | <u>305</u>       | <u>273</u>       | <u>243</u>       |
| Number of relocated stores                     | 16                                                         | 1                | 1                | 1                | 1                |
| Number of remodeled stores (b)                 | 8                                                          | 4                | —                | —                | —                |
| Total selling square footage at period-end (c) | 6,355,533                                                  | 4,164,190        | 3,904,958        | 3,448,347        | 3,014,196        |
| Average sales per store (in thousands) (d)     | \$ 3,045                                                   | \$ 2,699         | \$ 2,603         | \$ 2,682         | \$ 2,542         |
| Net sales per square foot of selling space     | \$ 216                                                     | \$ 209           | \$ 204           | \$ 214           | \$ 206           |
| Same-store sales increase (e)                  | 9.6%                                                       | 3.8%             | 0.4%             | 4.4%             | 10.9%            |
| <b>Balance Sheet Data (at end of period):</b>  |                                                            |                  |                  |                  |                  |
| Working capital                                | \$ 143,835                                                 | \$ 122,309       | \$ 133,731       | \$ 117,306       | \$ 95,530        |
| Total assets                                   | 458,919                                                    | 338,482          | 332,296          | 302,630          | 264,649          |
| Long-term debt, less current portion (f)       | 39,100                                                     | 23,157           | 62,950           | 54,683           | 37,132           |
| Stockholders' equity                           | 227,848                                                    | 181,296          | 155,036          | 138,305          | 119,976          |

\* 53-week fiscal year

- (a) Basic net income per share is calculated based on the weighted average number of common shares outstanding applied to net income. Diluted net income per share is calculated using the treasury stock method for options and warrants. All share and per share data have been adjusted to reflect a two-for-one stock split distributed in August 2002.
- (b) Includes remodelings costing more than \$150,000.
- (c) Total selling square footage includes normal selling space and excludes office, stockroom, receiving space and outside selling space.
- (d) Average sales per store are calculated based on the weighted average number of days open in the applicable period.
- (e) Same-store sales increases are calculated on an annual basis, excluding relocations, using all stores open at least one year.
- (f) Long-term debt includes borrowings under the Company's principal revolving credit agreement, term loan agreement and amounts outstanding under its capital lease obligations, excluding the current portions of each.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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The following discussion and analysis describes certain factors affecting Tractor Supply Company (the "Company"), its results of operations for the three fiscal years ended December 28, 2002, and its liquidity and capital resources. This discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report. The following discussion and analysis also contains certain historical and forward-looking information. The forward-looking statements included in this Annual Report 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 the Company expects or anticipates 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 Company's business operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, the Company is identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by or on behalf of the Company.

All phases of the Company's operations are subject to influences outside its control. Any one, or a combination, of these factors could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, pricing and other competitive factors, the ability to attract, train and retain highly qualified employees, the ability to identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions in general, threats of war or terrorism, and the seasonality of the Company's business. Forward-looking statements made by or on behalf of the Company are based on knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

The Company's fiscal year ends on the Saturday closest to December 31.

### Overview

The Company is the largest operator of retail farm and ranch stores in the United States, focused on supplying the lifestyle needs of recreational farmers and ranchers and serving the maintenance needs of those who enjoy the rural lifestyle, as well as tradesmen and small businesses. Stores are located in towns outlying major metropolitan markets and in rural communities. The Company offers the following comprehensive selection of merchandise: (1) livestock and pet products, including everything necessary for their health, growth and containment; (2) maintenance products for agricultural and rural use; (3) hardware and tool products; (4) seasonal products, including lawn and garden power equipment; (5) truck, trailer and towing products; and (6) work clothing for the entire family. The Company's stores typically range in size from 12,500 to 18,000 square feet of inside selling space and utilize at least as many square feet of outside selling space.

The Company's current and long-term growth strategy is to (1) expand geographic market presence, achieved by opening new retail stores at an annual growth rate of 8% to 10% and (2) enhance financial performance through same-store sales increases, achieved through aggressive merchandising programs with an "everyday low prices" philosophy, supported by strong customer service.

The Company has experienced considerable growth in recent years, including the addition of 35 stores in fiscal 2000, 18 in fiscal 2001 and 113 in fiscal 2002. This growth has increased the Company's market presence in the Southwest, primarily in Texas, the Southeast, primarily in Tennessee, Kentucky, North Carolina and Florida; in the central northern part of the United States, primarily in Ohio and Michigan and in the Northeast, primarily in Pennsylvania and New





## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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York. The Company operates 433 stores in 30 states as of December 28, 2002 and has a base plan to open 30 to 35 stores in fiscal 2003. The Company plans to open 40 to 45 new stores in fiscal 2004 and additional stores thereafter. The Company has identified over 600 potential additional locations for new stores in the United States. In addition, the Company continues to identify opportunities to relocate existing stores to ensure optimal locations to promote growth.

During the first quarter of 2002, the Company purchased real property for 24 store locations, lease rights for 76 store locations and fixtures from 100 stores from Quality Stores, Inc. (which was in liquidation bankruptcy). During fiscal 2002, 87 stores were opened as new Tractor Supply stores, and nine Tractor Supply stores were relocated to the acquired locations. The Company has also decided to open one additional store (previously classified as assets held for sale) and hold the remaining of the locations for sale. With this transaction, the Company has achieved a store growth plan in fiscal 2002 which is approximately four times the historical unit store growth plan for a single year. The Company avoided the potential pitfalls of acquiring redundant headquarters and information systems and did not acquire any inventory, thus avoiding the challenges of integrating similar product with dissimilar packaging into its existing stock, as well as avoiding the challenge of liquidating other products which conflict with the Company's existing product offerings. Rather, the Company selected only the geographic markets that it believed had the greatest potential.

This aggressive expansion occurred in a more compressed timeframe than the Company's historical store growth, including the opening of 90 stores in the second quarter of fiscal 2002. To achieve this level of growth, the Company devoted substantial resources toward this endeavor and incurred considerable cost to ensure the stores were opened in accordance with the planned strategy. The transition of these locations to Tractor Supply Company stores was completed during the third fiscal quarter.

Additionally, the Company has placed significant emphasis on its merchandising programs, evaluating the sales and profitability of its products through detailed line reviews, review of vendor performance measures and modification of the overall product offerings. These efforts, coupled with a strong marketing program and in-depth product knowledge training of store employees, have enhanced sales, improved gross margins and generated improved overall financial performance.

### **Seasonality and Weather**

The Company's business is highly seasonal. Historically, the Company's sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the sale of seasonal products. The Company typically operates at a net loss in the first fiscal quarter of each year. Unseasonable weather, excessive rain, drought, and early or late frosts may also affect the Company's sales. The Company believes, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of its stores.

The Company experiences a buildup of inventory and accounts payable during its first fiscal quarter each year for purchases of seasonal product in anticipation of the April through June selling season and again during its third fiscal quarter in anticipation of the October through December selling season.

### **Significant Accounting Policies and Estimates**

Management's discussion and analysis of the Company's financial position and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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. The Company's significant accounting policies, including areas of critical management judgments and estimates, have primary impact on the following financial statement areas:



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- Inventory valuation, including reserves
- Sales returns
- Impairment of long-lived assets
- Inventory shrinkage
- Self-insurance
- Advertising costs

The Company's critical accounting policies are subject to judgments and uncertainties, which affect the application of such policies. (See Note 1 to the Consolidated Financial Statements.) The Company's 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.

### Quarterly Financial Data

The Company's unaudited quarterly operating results for each fiscal quarter of 2002 and 2001 are shown below (dollars in thousands, except per share amounts):

| <b>2002</b>                                     | <b>First<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> | <b>Total</b> |
|-------------------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------|
| Net sales                                       | \$ 193,810               | \$ 392,048                | \$ 296,215               | \$ 327,917                | \$ 1,209,990 |
| Gross profit                                    | 51,979                   | 108,391                   | 84,019                   | 97,798                    | 342,187      |
| Income (loss) from operations                   | (5,401)                  | 29,125                    | 13,312                   | 28,404                    | 65,440       |
| Net income (loss)                               | (4,010)                  | 17,346                    | 7,801                    | 17,633                    | 38,770       |
| Net income (loss) per share - basic             | \$ (0.22)                | \$ 0.96                   | \$ 0.43                  | \$ 0.97                   | \$ 2.15      |
| Net income (loss) per share - assuming dilution | \$ (0.22)                | \$ 0.88                   | \$ 0.39                  | \$ 0.88                   | \$ 1.97      |

| <b>2001</b>                                     | <b>First<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> | <b>Total</b> |
|-------------------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------|
| Net sales                                       | \$ 162,517               | \$ 267,490                | \$ 199,435               | \$ 220,357                | \$ 849,799   |
| Gross profit                                    | 42,095                   | 71,793                    | 53,972                   | 60,484                    | 228,344      |
| Income (loss) from operations                   | (1,565)                  | 23,455                    | 4,933                    | 12,024                    | 38,847       |
| Net income (loss)                               | (1,849)                  | 15,644                    | 2,425                    | 9,554                     | 25,774       |
| Net income (loss) per share - basic             | \$ (0.11)                | \$ 0.89                   | \$ 0.14                  | \$ 0.54                   | \$ 1.46      |
| Net income (loss) per share - assuming dilution | \$ (0.11)                | \$ 0.88                   | \$ 0.13                  | \$ 0.51                   | \$ 1.43      |

On July 18, 2002, the Company's Board of Directors approved a two-for-one split of the Company's common stock. As a result, stockholders received one additional share on August 19, 2002 for each share held as of the record date of August 2, 2002. The par value of the Company's common stock remains \$0.008. All share and per share data presented in this Annual Report has been adjusted to reflect the stock split.

In the second quarter of 2001, a former executive of the Company, on whom the Company carried a life insurance policy, passed away. As a result of this related coverage, the Company realized a \$2.2 million gain on the life insurance proceeds. Additionally, the Company reevaluated its tax exposure in the fourth quarter of 2001 and, as a result of the favorable resolution of certain tax issues along with the closing of open tax years, reduced previously accrued income tax liabilities by \$2.5 million.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Results of Operations

The following table sets forth, for the periods indicated, certain items in the Company's Consolidated Statements of Income expressed as a percentage of net sales:

|                                              | Fiscal Year Ended |                  |                  |
|----------------------------------------------|-------------------|------------------|------------------|
|                                              | Dec. 28,<br>2002  | Dec. 29,<br>2001 | Dec. 30,<br>2000 |
| Net sales                                    | 100.0%            | 100.0%           | 100.0%           |
| Cost of merchandise sold                     | 71.7              | 73.1             | 73.6             |
| Gross profit                                 | 28.3              | 26.9             | 26.4             |
| Selling, general and administrative expenses | 21.5              | 21.0             | 20.6             |
| Depreciation and amortization                | 1.4               | 1.3              | 1.3              |
| Income from operations                       | 5.4               | 4.6              | 4.5              |
| Interest expense, net                        | 0.4               | 0.5              | 0.8              |
| Unusual item - gain on life insurance        | —                 | 0.2              | —                |
| Income before income taxes                   | 5.0               | 4.3              | 3.7              |
| Income tax provision                         | 1.8               | 1.3              | 1.5              |
| Net income                                   | 3.2%              | 3.0%             | 2.2%             |

### Fiscal 2002 Compared to Fiscal 2001

Net sales increased 42.4% to \$1,210.0 million in fiscal 2002 from \$849.8 million in fiscal 2001. This increase resulted from the opening of new stores as well as same-store sales improvement of 9.6%. The significant improvement in same-store sales in fiscal 2002 is due primarily to new merchandising programs, special promotions, market share gains in certain markets and improved in-store execution. In fiscal 2002, the Company opened 113 new stores (compared to 18 in the prior year), closed three stores (compared to none in the prior year) and relocated 16 stores (compared to one in the prior year).

At December 28, 2002, the Company operated 433 stores compared to 323 stores at the end of fiscal 2001.

The gross margin rate increased to 28.3% of sales in fiscal 2002 from 26.9% in fiscal 2001. This gross margin improvement was primarily due to improved product costs (including a \$1.4 million favorable LIFO experience), changes in the sales mix, increased volume rebates and improved leveraging of freight costs.

As a percent of sales, selling, general and administrative (SG&A) expenses increased to 21.5% for fiscal 2002 from 21.0% for fiscal 2001. The increase includes incremental pre-tax costs of \$10.7 million for pre-opening transition and training costs related to the 87-store expansion, costs for store relocations and three store closings. Exclusive of these incremental costs related to the expansion, SG&A expense, as a percent of sales, decreased 0.4 percentage point to 20.6% for fiscal 2002. On an absolute basis, SG&A expenses increased 46.0% to \$260.3 million. These increases primarily reflect the incremental expansion costs, the remaining incremental costs associated with the new stores opened in fiscal 2002, as well as higher variable store operating costs associated with the same-store sales increase and higher incentive compensation accruals.

During fiscal 2002, the Company continued its major media advertising program which included a national television campaign featuring a celebrity spokesperson, significantly expanded use of radio promotions and direct mail, and increased print advertising. This program is partially funded each year through the support of the Company's vendor partners.

Depreciation and amortization expense increased 46.2% over the prior year due mainly to costs associated with new





## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

and relocated stores, as well as remodeled existing stores.

Net interest expense increased 4.7% in fiscal 2002 from fiscal 2001 resulting from increased borrowings under the senior credit facility to fund significant new store expansion.

The Company's effective tax rate decreased to 36.2% for fiscal 2002 compared with 38.6% for fiscal 2001 (exclusive of a non-taxable \$2.2 million gain from the proceeds of life insurance and a \$2.5 million reduction of previously accrued income taxes, both of which occurred during 2001). The effective tax rate decreased primarily due to reductions in state income taxes.

The Company reevaluated its tax exposure during the quarter ended December 29, 2001, and, as a result of the favorable resolution of certain tax issues, along with the closing of open tax years, the Company reduced previously accrued income tax liabilities by \$2.5 million.

Net income increased 50.4% to \$38.8 million in fiscal 2002 from \$25.8 million in fiscal 2001, and net income per share (assuming dilution) for fiscal 2002 increased 37.8% to \$1.97 per share from \$1.43 per share for fiscal 2001. As a percentage of sales, net income increased 0.2 percentage point to 3.2% of sales for fiscal 2002 from 3.0% of sales for fiscal 2001.

The following chart presents earnings per share, reflecting the effect of certain significant matters:

|                                                       | 2002             |               |                  | 2001             |               |                  |
|-------------------------------------------------------|------------------|---------------|------------------|------------------|---------------|------------------|
|                                                       | Income           | Shares        | Per Share Amount | Income           | Shares        | Per Share Amount |
| <b>Basic earnings per share:</b>                      |                  |               |                  |                  |               |                  |
| Net income – as reported                              | \$ 38,770        | 18,056        | \$ 2.15          | \$ 25,774        | 17,648        | \$ 1.46          |
| Non-recurring store expansion costs<br>(net of taxes) | 6,666            | 18,056        | 0.37             | —                | —             | —                |
| Unusual item: insurance proceeds                      | —                | —             | —                | (2,173)          | 17,648        | (0.12)           |
| Adjustment of deferred taxes                          | —                | —             | —                | (2,500)          | 17,648        | (0.14)           |
|                                                       | <u>\$ 45,436</u> | <u>18,056</u> | <u>\$ 2.52</u>   | <u>\$ 21,101</u> | <u>17,648</u> | <u>\$ 1.20</u>   |
| <b>Diluted earnings per share:</b>                    |                  |               |                  |                  |               |                  |
| Net income – as reported                              | \$ 38,770        | 19,638        | \$ 1.97          | \$ 25,774        | 18,081        | \$ 1.43          |
| Non-recurring store expansion costs<br>(net of taxes) | 6,666            | 19,638        | 0.34             | —                | —             | —                |
| Unusual item: insurance proceeds                      | —                | —             | —                | (2,173)          | 18,081        | (0.12)           |
| Adjustment of deferred taxes                          | —                | —             | —                | (2,500)          | 18,081        | (0.14)           |
|                                                       | <u>\$ 45,436</u> | <u>19,638</u> | <u>\$ 2.31</u>   | <u>\$ 21,101</u> | <u>18,081</u> | <u>\$ 1.17</u>   |

### Fiscal 2001 Compared to Fiscal 2000

Net sales increased 12.0% to \$849.8 million in fiscal 2001 from \$759.0 million in fiscal 2000. This increase resulted from the opening of new stores as well as same-store sales improvement of 3.8%. The increase in same-store sales for fiscal 2001 was a result of new merchandising programs and reduced competition in certain markets, offset by general economic challenges in 2001 and the warmer weather patterns in the fourth quarter of fiscal 2001. The Company opened 18 new stores and relocated one store in fiscal 2001. The Company opened 35 new stores, closed three stores and relocated one store in fiscal 2000. At December 29, 2001, the Company operated 323 stores compared to 305 stores at the end of fiscal 2000.

The gross margin rate increased to 26.9% of sales in fiscal 2001 from 26.4% in fiscal 2000. This gross margin



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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improvement resulted from a reduction in product costs achieved through detailed product line reviews, improved product assortments and other merchandising initiatives.

As a percent of sales, selling, general and administrative expenses increased 0.4 percentage point to 21.0% for fiscal 2001 from 20.6% for fiscal 2000. On an absolute basis, selling, general and administrative expenses increased 13.9% to \$178.2 million for fiscal 2001 from \$156.5 million in fiscal 2000. The increase in expenses on a percentage-of-sales basis is primarily a result of increased store-level expenses (primarily payroll and training) and higher incentive accruals, offset, in part, by greater leverage from same-store sales performance. The increase in absolute dollars is primarily attributable to costs associated with new store openings (new stores have considerably higher occupancy costs, primarily rent, than the existing store base), as well as increased store payroll, training and higher incentive accruals.

During fiscal 2001, the Company continued its major media advertising program which included a national television campaign featuring a celebrity spokesperson, significantly expanded use of radio promotions and increased print advertising. This program is partially funded each year through the support of the Company's vendor partners.

Depreciation and amortization expense increased 13.8% over the prior year due mainly to costs associated with new and relocated stores and remodeled existing stores.

Net interest expense decreased 29.6% in fiscal 2001 from fiscal 2000 resulting from reduced borrowings, as well as reduced interest rates during the period.

In April 2001, a former executive of the Company, on whom the Company carried a life insurance policy, passed away. The Company realized a \$2.2 million gain on the life insurance proceeds.

The Company reevaluated its tax exposure during the quarter ended December 29, 2001; as a result of the favorable resolution of certain tax issues, along with the closing of open tax years, the Company reduced previously accrued income tax liabilities by \$2.5 million. Exclusive of the non-taxable \$2.2 million gain on the proceeds of life insurance and the \$2.5 million income tax adjustment, the Company's effective tax rate decreased to 38.6% for fiscal 2001 compared to 40.6% for fiscal 2000. The effective tax rate decreased primarily due to a reduction in state income taxes.

Net income increased 57.3% to \$25.8 million in fiscal 2001 from \$16.4 million for fiscal 2000, and net income per share (assuming dilution) for fiscal 2001 increased 53.8% to \$1.43 per share from \$0.93 per share for fiscal 2000. As a percentage of sales, net income increased 0.8 percentage point to 3.0% of sales for fiscal 2001 from 2.2% of sales for fiscal 2000.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following chart presents earnings per share, reflecting the effect of certain significant matters:

|                                    | 2001             |               |                  | 2000             |               |                  |
|------------------------------------|------------------|---------------|------------------|------------------|---------------|------------------|
|                                    | Income           | Shares        | Per Share Amount | Income           | Shares        | Per Share Amount |
| <b>Basic earnings per share:</b>   |                  |               |                  |                  |               |                  |
| Net income – as reported           | \$ 25,774        | 17,648        | \$ 1.46          | \$ 16,390        | 17,564        | \$ 0.93          |
| Unusual item: insurance proceeds   | (2,173)          | 17,648        | (0.12)           | —                | —             | —                |
| Adjustment of deferred taxes       | (2,500)          | 17,648        | (0.14)           | —                | —             | —                |
|                                    | <u>\$ 21,101</u> | <u>17,648</u> | <u>\$ 1.20</u>   | <u>\$ 16,390</u> | <u>17,564</u> | <u>\$ 0.93</u>   |
| <b>Diluted earnings per share:</b> |                  |               |                  |                  |               |                  |
| Net income – as reported           | \$ 25,774        | 18,081        | \$ 1.43          | \$ 16,390        | 17,721        | \$ 0.93          |
| Unusual item: insurance proceeds   | (2,173)          | 18,081        | (0.12)           | —                | —             | —                |
| Adjustment of deferred taxes       | (2,500)          | 18,081        | (0.14)           | —                | —             | —                |
|                                    | <u>\$ 21,101</u> | <u>18,081</u> | <u>\$ 1.17</u>   | <u>\$ 16,390</u> | <u>17,721</u> | <u>\$ 0.93</u>   |

### Liquidity and Capital Resources

In addition to normal operating expenses, the Company's primary ongoing cash requirements are for expansion, remodeling and relocation programs, including inventory purchases and capital expenditures. The Company's primary ongoing sources of liquidity are funds provided from operations, commitments available under its revolving credit agreement and normal trade credit. The Company's inventory and accounts payable levels typically build in the first and again in the third fiscal quarters in anticipation of the spring and fall selling seasons.

At December 28, 2002, the Company's inventories had increased \$67.3 million to \$289.3 million from \$222.0 million at December 29, 2001. The increase resulted primarily from additional inventory for new stores (while average inventory levels per store declined 3% during the year). Trade credit increased \$33.9 million to \$114.9 million at December 28, 2002 from \$81.0 million at December 29, 2001. Trade credit arises from the Company's vendors granting extended payment terms for inventory purchases. Payment terms vary from 30 days to 180 days depending on the inventory product.

At December 28, 2002, the Company had working capital of \$143.8 million, a \$21.5 million increase from December 29, 2001. This increase resulted primarily from a \$67.3 million increase in inventories less a \$33.9 million increase in accounts payable, and a \$7.8 million change in deferred income taxes, offset, in part, by a \$23.3 million increase in accrued expenses (due largely to growth in operations, increased incentive compensation, and timing of payments).

In August 2002, the Company entered into a replacement unsecured senior revolving credit facility with Bank of America, N.A., as agent for a lender group, expanding the maximum available borrowings from \$125 million to \$155 million, extending the maturity to February 2006 and increasing the number of participating banks from seven to ten. The balance of funds available under the Senior Credit Facility may be utilized for borrowings, including up to \$50.0 million for letters of credit. The Credit Facility bears interest at either the bank's prime rate (4.25% at December 28, 2002) or the London Inter-Bank Offer Rate ("LIBOR") (1.42% at December 28, 2002) plus an additional amount ranging from .75% to 1.5% per annum, adjusted quarterly based on Company performance (1.00% at December 28, 2002). The Company is also required to pay, quarterly in arrears, a commitment fee ranging from .20% to .35% per annum, adjusted quarterly based on Company performance, on the average daily unused portion of the credit line. There are no compensating balance requirements associated with the Senior Credit Facility. The Company expects to continue borrowing amounts under the Senior Credit Facility from time to time to fund its growth and expansion programs and as a source of seasonal working capital.





## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Operations provided net cash of \$46.7 million in fiscal 2002, \$47.1 million in fiscal 2001 and \$10.2 million in fiscal 2000. The decrease in net cash provided in 2002 resulted primarily from inventories increasing more than accounts payable compared to fiscal 2001, offset, in part, by accrued expenses increasing more than in fiscal 2001 (primarily due to the growth in new stores, higher incentive compensation accruals and, to some extent, timing of payments). The generation of cash in fiscal 2001 resulted primarily from net income as well as inventories increasing less than accounts payable. The generation of cash in fiscal 2000 resulted primarily from net income offset, in part, by inventory increasing more than accounts payable.

Cash used in investing activities of \$62.6 million, \$10.7 million and \$16.7 million for fiscal 2002, 2001 and 2000, respectively, resulted primarily from capital expenditures to open 113 stores during 2002 compared to 18 new stores in fiscal 2001 and 35 stores in fiscal 2000.

Financing activities in fiscal 2002 provided \$20.8 million in cash, compared to \$36.6 million of cash used in fiscal 2001. This increase resulted primarily from net borrowings of \$18.4 million under the revolving credit agreement in fiscal 2002 compared to net repayments of approximately \$34.9 million in fiscal 2001 as well as repayments of long-term debt of \$2.1 million in fiscal 2002 compared to \$5.6 million in fiscal 2001. Additionally, the Company received proceeds of approximately \$4.8 million from issuance of common stock during fiscal 2002 compared to \$1.6 million during fiscal 2001 (such stock issuances related to the exercise of stock options and employee stock purchases). The overall increase was partially offset by net proceeds from life insurance benefits of \$2.5 million in fiscal 2001. Financing activities in fiscal 2001 used \$36.6 million in cash, which represented a \$45.3 million decrease from the \$8.7 million in cash provided in fiscal 2000. This decrease resulted primarily from net repayments of \$34.9 million under the revolving credit agreement in fiscal 2001 compared to net borrowings of approximately \$11.9 million in fiscal 2000, as well as repayments of long-term debt of \$5.6 million in fiscal 2001 compared to \$3.0 million in fiscal 2000.

The Company's capital additions were \$66.5 million, \$13.6 million and \$17.4 million in fiscal 2002, 2001 and 2000, respectively. In addition to the real property and fixtures purchased from Quality Stores, Inc., the majority of the capital additions were for store fixtures, equipment and leasehold improvements for new stores and remodeling of existing stores. The Company expects that its capital expenditures for fiscal 2003 will be approximately \$34.0 million; however, the Company cannot predict with certainty the amount of such expenditures because such new stores may be constructed, leased or acquired from others. The estimated cash required to open a new store is approximately \$0.8 to \$1.0 million, the majority of which is for the initial acquisition of inventory and capital expenditures, principally leasehold improvements, fixtures and equipment, and the balance of which is for store opening expenses.

The Company believes that its cash flow from operations, borrowings available under credit agreements and normal trade credit will be sufficient to fund the Company's operations and its capital expenditure needs, including store openings and renovations, over the next several years.

### Off-Balance Sheet Arrangements

The extent of the Company's off-balance sheet arrangements are operating leases for buildings and equipment for retail stores, distribution centers and offices (see Note 6 of Notes to the Consolidated Financial Statements for further discussion and scheduled payments of both operating and capital leases). In addition, the Company has outstanding letters of credit totaling \$3.9 million at December 28, 2002.

### Related Party Transactions

The Company's only related party transactions are capital lease arrangements on two retail stores entered into in 1986 (see Note 12 to accompanying financial statements).



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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### Litigation

The Company is involved in various litigation arising in the ordinary course of business. After consultation with legal counsel, management expects these matters will be resolved without material adverse effect on the Company's consolidated financial position or results of operations. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

### Environmental Matters

In connection with certain contaminated leased store properties vacated by the Company upon relocation in 2002, the Company has agreed to indemnify the property owners with respect to environmental liabilities associated with the use of those properties, as defined in the related lease agreements. During fiscal 2002, the Company has not paid or accrued material amounts related to these properties. The Company does not expect the expense of these activities to exceed \$0.1 million, however, because of the uncertainties associated with environmental assessment and remediation activities; the Company's future expenses to remediate the currently identified sites could be higher than amounts accrued. Future expenditures for environmental remediation may be affected in the near-term by identification of additional contaminated sites, the level and type of contamination found and the extent and nature of cleanup activities required.

### Quantitative and Qualitative Disclosures About Market Risk

The Company has entered into an interest rate swap agreement as a means of managing its interest rate exposure. This agreement has the effect of converting certain of the Company's variable rate obligations to fixed rate obligations. Net amounts paid or received are reflected as adjustment to interest expense.

The Company applies Statements of Financial Accounting Standards Nos. 133, 137, and 138 (collectively "SFAS 133") in the accounting for derivatives and hedging activities. SFAS 133 requires the Company to recognize all derivative instruments in the balance sheet at fair value. SFAS 133 impacts the accounting for the Company's interest rate swap agreement. The Company's interest rate swap agreement is designated as a cash flow hedge. At December 28, 2002 and December 29, 2001, the interest rate swap agreement hedged cash flows related to variable-rate debt of \$33.5 million and \$15.1 million, respectively. The fair value of the interest rate swap was a liability of \$1.7 million at December 28, 2002 and \$2.4 million at December 29, 2001. The interest rate swap agreement expires in November 2003.

The Company is exposed to changes in interest rates primarily from its variable-rate, long-term debt arrangements. Under its current policies, the Company uses the interest rate swap to manage exposure to interest rate changes for a portion of its debt arrangements. Taking into account the effects of the interest rate swap designated as hedge, a hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would result in approximately \$239,000 of additional interest expense and would not impact the fair market value of the long-term debt.

Although the Company cannot accurately determine the precise effect of inflation on its operations, it does not believe its sales or results of operations have been materially affected by inflation. The Company has been successful, in many cases, in reducing or mitigating the effects of inflation principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases and selective buying from the most competitive vendors without sacrificing quality.

### Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires asset impairments to be recognized when circumstances





## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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indicate the carrying amount of the asset may not be recoverable. Impairment is recognized on assets classified as held and used when the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. Impairment on long-lived assets to be disposed of is recognized by writing down the related assets to their fair value (less costs to sell, as appropriate), when the criteria have been met for the asset to be classified as held for sale or disposal. The Company adopted the provisions of SFAS 144 during fiscal 2002.

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections," which required gains and losses from extinguishment of debt to no longer be classified as extraordinary items, net of related income tax effect. SFAS 145 requires that extinguishment gains or losses be classified as ordinary gains or losses, and that all such gains or losses in prior periods be reclassified to ordinary gain or loss in comparative financial statements. SFAS 145, which applies to all entities, is effective for fiscal years beginning after May 15, 2002. The Company expects that the adoption of SFAS 145 during fiscal 2003 will have no impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," requiring that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146, which applies to all entities, is effective for exit or disposal activities that are initiated after December 31, 2002. The Company expects that the adoption of SFAS 146 during fiscal 2003 will not materially impact the Company's financial position or results of operations.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 02-16 ("EITF 02-16"), "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor." This issue involves the accounting and income statement classification for consideration given by a vendor to a retailer in connection with the sale of the vendor's products or for the promotion of sales of the vendor's products. The EITF concluded that such consideration received from vendors should be reflected as a decrease in prices paid for inventory and recognized in cost of sales as the related inventory is sold, unless specific criteria are met qualifying the consideration for treatment as reimbursement of specific, identifiable incremental costs. Prior to adopting this pronouncement, the Company classified all vendor-provided marketing support funds as a reduction in selling, general and administrative expenses. Upon adoption, these funds received from vendors will be recognized as a reduction of cost of sales as the related vendor's purchased inventory is sold. As clarified by the EITF in January 2003, this issue is effective for arrangements with vendors initiated on or after January 1, 2003. The Company will implement the recognition requirements of this issue in the first quarter of fiscal 2003 and has not yet determined the impact that adoption will have on its fiscal year-end 2003 financial position or results of operations. Adoption of this requirement will have no impact on cash flows.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amends SFAS 123 "Accounting for Stock-Based Compensation." SFAS 148 provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. SFAS 148 is effective for financial statements issued for fiscal years ending after December 15, 2002, and interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as disclosed in Note 14 of Notes to Consolidated Financial Statements and does not utilize the fair value method. However, the Company has adopted the disclosure requirements of SFAS 123 and has adopted the additional disclosure requirements as specified in SFAS 148 in fiscal 2002.

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## REPORT OF MANAGEMENT

The consolidated financial statements presented in this Annual Report have been prepared with integrity and objectivity and are the responsibility of the management of Tractor Supply Company. These financial statements have been prepared in conformity with generally accepted accounting principles and properly reflect certain estimates and judgments based upon the best available information.

The Company maintains a system of internal accounting controls, which is supported by an internal audit program and is designed to provide reasonable assurance that the Company's assets are safeguarded and transactions are properly recorded. This system is continually reviewed and modified in response to changing business conditions and operations and as a result of recommendations by the external and internal auditors. We believe that the accounting and control systems provide reasonable assurance that the Company's assets are safeguarded and that the financial information presented is reliable.

Our Company supports a values structure that places strong ethics and open communications among its most critical success factors. We support an "open door" communication policy and encourage timely, effective and complete communication. We strongly encourage all team members to inform management at the appropriate level when they are concerned about any matter pertaining to the Company. Tractor Supply Company maintains a Code of Ethics to guide our team members in the continued observance of high ethical standards such as honesty, integrity and compliance with the law in the conduct of the Company's business. We obtain an annual acknowledgement of familiarity and compliance with the Code of Ethics from all members of management.

The 2002 and 2001 consolidated financial statements of the Company have been audited by Ernst & Young LLP, independent auditors. Their accompanying report is based upon an audit conducted in accordance with auditing standards generally accepted in the United States. We have made all financial records and related data available to Ernst & Young LLP.

The Audit Committee of the Board of Directors, consisting solely of independent directors, meets quarterly with the independent auditors, the internal auditors and representatives of management to discuss auditing and financial reporting matters. The Audit Committee, acting on behalf of the stockholders, maintains an ongoing appraisal of the internal accounting controls, the activities of the outside auditors and internal auditors and the financial condition of the Company. Both the Company's independent auditors and the internal auditors have free access to the Audit Committee.

  
Joseph H. Scarlett, Jr.  
Chairman and  
Chief Executive Officer

  
Calvin B. Massmann  
Senior Vice President-  
Chief Financial Officer

## REPORT OF INDEPENDENT AUDITORS

### The Board of Directors and Stockholders Tractor Supply Company

We have audited the accompanying consolidated balance sheets of Tractor Supply Company as of December 28, 2002 and December 29, 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated statements of income, stockholders' equity, and cash flows of Tractor Supply Company for the year ended December 30, 2000, were audited by other auditors whose report, dated January 24, 2001, expressed an unqualified opinion on those statements.

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

In our opinion, the 2002 and 2001 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tractor Supply Company at December 28, 2002 and December 29, 2001, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

Nashville, Tennessee  
January 21, 2003



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## CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

|                                              | For the fiscal year ended |                  |                  |
|----------------------------------------------|---------------------------|------------------|------------------|
|                                              | Dec. 28,<br>2002          | Dec. 29,<br>2001 | Dec. 30,<br>2000 |
| Net sales                                    | \$ 1,209,990              | \$ 849,799       | \$ 759,037       |
| Cost of merchandise sold                     | <u>867,803</u>            | <u>621,455</u>   | <u>558,630</u>   |
| Gross profit                                 | 342,187                   | 228,344          | 200,407          |
| Selling, general and administrative expenses | 260,290                   | 178,243          | 156,535          |
| Depreciation and amortization                | <u>16,457</u>             | <u>11,254</u>    | <u>9,889</u>     |
| Income from operations                       | 65,440                    | 38,847           | 33,983           |
| Interest expense, net                        | 4,707                     | 4,494            | 6,387            |
| Unusual item: gain on life insurance         | <u>—</u>                  | <u>2,173</u>     | <u>—</u>         |
| Income before income taxes                   | 60,733                    | 36,526           | 27,596           |
| Income tax provision                         | <u>21,963</u>             | <u>10,752</u>    | <u>11,206</u>    |
| Net income                                   | <u>\$ 38,770</u>          | <u>\$ 25,774</u> | <u>\$ 16,390</u> |
| Net income per share - basic                 | <u>\$ 2.15</u>            | <u>\$ 1.46</u>   | <u>\$ 0.93</u>   |
| Net income per share - assuming dilution     | <u>\$ 1.97</u>            | <u>\$ 1.43</u>   | <u>\$ 0.93</u>   |

The accompanying notes are an integral part of this statement.



# CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

|                                                                                                                                                       | Dec. 28,<br>2002  | Dec. 29,<br>2001  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                                                                                                                                         |                   |                   |
| Current assets:                                                                                                                                       |                   |                   |
| Cash and cash equivalents                                                                                                                             | \$ 13,773         | \$ 8,927          |
| Accounts receivable, net                                                                                                                              | 102               | 2,211             |
| Inventories                                                                                                                                           | 289,253           | 221,979           |
| Prepaid expenses and other current assets                                                                                                             | 17,579            | 18,845            |
| Assets held for sale                                                                                                                                  | 3,779             | —                 |
| Deferred income taxes                                                                                                                                 | 7,784             | —                 |
| Total current assets                                                                                                                                  | <u>332,270</u>    | <u>251,962</u>    |
| Property and Equipment:                                                                                                                               |                   |                   |
| Land                                                                                                                                                  | 12,569            | 6,365             |
| Buildings and improvements                                                                                                                            | 100,843           | 72,682            |
| Furniture, fixtures and equipment                                                                                                                     | 75,815            | 53,250            |
| Construction in progress                                                                                                                              | 4,271             | 5,699             |
|                                                                                                                                                       | <u>193,498</u>    | <u>137,996</u>    |
| Accumulated depreciation and amortization                                                                                                             | (69,953)          | (56,008)          |
| Property and equipment, net                                                                                                                           | <u>123,545</u>    | <u>81,988</u>     |
| Other assets                                                                                                                                          | 3,104             | 4,532             |
| Total assets                                                                                                                                          | <u>\$ 458,919</u> | <u>\$ 338,482</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                           |                   |                   |
| Current liabilities:                                                                                                                                  |                   |                   |
| Accounts payable                                                                                                                                      | \$ 114,851        | \$ 80,974         |
| Accrued employee compensation                                                                                                                         | 14,892            | 7,361             |
| Other accrued expenses                                                                                                                                | 51,410            | 35,582            |
| Current maturities of long-term debt                                                                                                                  | 2,142             | 2,142             |
| Current portion of capital lease obligations                                                                                                          | 340               | 309               |
| Income taxes currently payable                                                                                                                        | 3,101             | 3,111             |
| Other current liabilities                                                                                                                             | 1,699             | 174               |
| Total current liabilities                                                                                                                             | <u>188,435</u>    | <u>129,653</u>    |
| Revolving credit loan                                                                                                                                 | 33,542            | 15,117            |
| Other long-term debt                                                                                                                                  | 3,395             | 5,537             |
| Capital lease obligations                                                                                                                             | 2,163             | 2,503             |
| Deferred income taxes                                                                                                                                 | 1,584             | —                 |
| Other long-term liabilities                                                                                                                           | 1,952             | 4,376             |
| Total liabilities                                                                                                                                     | <u>231,071</u>    | <u>157,186</u>    |
| Commitments and contingencies                                                                                                                         |                   |                   |
| Stockholders' equity:                                                                                                                                 |                   |                   |
| Preferred Stock, 40,000 shares authorized; \$1.00 par value; no shares issued                                                                         | —                 | —                 |
| Common stock, 100,000,000 shares authorized; \$.008 par value; 18,232,954 and 17,787,362 shares issued and outstanding in 2002 and 2001, respectively | 146               | 142               |
| Additional paid-in capital                                                                                                                            | 52,174            | 44,845            |
| Retained earnings                                                                                                                                     | 176,501           | 137,731           |
| Accumulated other comprehensive loss, net                                                                                                             | (973)             | (1,422)           |
| Total stockholders' equity                                                                                                                            | <u>227,848</u>    | <u>181,296</u>    |
| Total liabilities and stockholders' equity                                                                                                            | <u>\$ 458,919</u> | <u>\$ 338,482</u> |

The accompanying notes are an integral part of this statement.



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## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

*(in thousands, except share amounts)*

|                                                                                | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Stockholders'<br>Equity |
|--------------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|--------------------------------------------------------|----------------------------------|
| Stockholders' equity at January 1, 2000                                        | \$ 141          | \$ 42,597                        | \$ 95,567            | \$ —                                                   | \$ 138,305                       |
| Issuance of common stock under employee<br>stock purchase plan (46,842 shares) |                 | 341                              |                      |                                                        | 341                              |
| Net income                                                                     |                 |                                  | 16,390               |                                                        | 16,390                           |
| Stockholders' equity at December 30, 2000                                      | 141             | 42,938                           | 111,957              | —                                                      | 155,036                          |
| Issuance of common stock under employee<br>stock purchase plan (69,430 shares) |                 | 380                              |                      |                                                        | 380                              |
| Exercise of stock options (132,878 shares)                                     | 1               | 1,235                            |                      |                                                        | 1,236                            |
| Tax benefit on disqualifying disposition<br>of stock options                   |                 | 292                              |                      |                                                        | 292                              |
| Unrealized loss on interest rate swap<br>agreement, net of income taxes        |                 |                                  |                      | (1,422)                                                | (1,422)                          |
| Net income                                                                     |                 |                                  | 25,774               |                                                        | 25,774                           |
| Stockholders' equity at December 29, 2001                                      | 142             | 44,845                           | 137,731              | (1,422)                                                | 181,296                          |
| Issuance of common stock under employee<br>stock purchase plan (35,687 shares) |                 | 639                              |                      |                                                        | 639                              |
| Exercise of stock options (409,905 shares)                                     | 4               | 4,192                            |                      |                                                        | 4,196                            |
| Tax benefit on disqualifying disposition<br>of stock options                   |                 | 2,498                            |                      |                                                        | 2,498                            |
| Unrealized gain on interest rate swap<br>agreement, net of income taxes        |                 |                                  |                      | 449                                                    | 449                              |
| Net income                                                                     |                 |                                  | 38,770               |                                                        | 38,770                           |
| Stockholders' equity at December 28, 2002                                      | \$ 146          | \$ 52,174                        | \$ 176,501           | \$ (973)                                               | \$ 227,848                       |

*The accompanying notes are an integral part of this statement.*



# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

|                                                                                   | For the fiscal year ended |                  |                  |
|-----------------------------------------------------------------------------------|---------------------------|------------------|------------------|
|                                                                                   | Dec. 28,<br>2002          | Dec. 29,<br>2001 | Dec. 30,<br>2000 |
| Cash flows from operating activities:                                             |                           |                  |                  |
| Net income                                                                        | \$ 38,770                 | \$ 25,774        | \$ 16,390        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                  |                  |
| Depreciation and amortization                                                     | 16,457                    | 11,254           | 9,889            |
| Gain on disposition of property and equipment                                     | (1,081)                   | (60)             | (241)            |
| Asset impairment related to closed stores                                         | 558                       | —                | —                |
| Gain on proceeds from life insurance                                              | —                         | (2,173)          | —                |
| Deferred income taxes                                                             | (3,932)                   | (4,765)          | (3,258)          |
| Tax benefit of stock options exercised                                            | 2,498                     | 292              | —                |
| Change in assets and liabilities:                                                 |                           |                  |                  |
| Accounts receivable                                                               | 2,109                     | 592              | 337              |
| Inventories                                                                       | (67,274)                  | 556              | (15,210)         |
| Prepaid expenses and other current assets                                         | 343                       | (6,095)          | (4,280)          |
| Accounts payable                                                                  | 33,877                    | 10,680           | 10,530           |
| Accrued expenses                                                                  | 23,359                    | 9,014            | (108)            |
| Income taxes currently payable                                                    | (10)                      | 1,468            | (2,492)          |
| Other                                                                             | 983                       | 560              | (1,384)          |
| Net cash provided by operating activities                                         | <u>46,657</u>             | <u>47,097</u>    | <u>10,173</u>    |
| Cash flows from investing activities:                                             |                           |                  |                  |
| Capital expenditures                                                              | (66,544)                  | (13,569)         | (17,358)         |
| Proceeds from sale of property and equipment                                      | 3,924                     | 1,376            | 634              |
| Liquidation of life insurance policies                                            | —                         | 1,499            | —                |
| Net cash used in investing activities                                             | <u>(62,620)</u>           | <u>(10,694)</u>  | <u>(16,724)</u>  |
| Cash flows from financing activities:                                             |                           |                  |                  |
| Borrowings under revolving credit agreement                                       | 539,915                   | 274,674          | 331,004          |
| Repayments under revolving credit agreement                                       | (521,490)                 | (309,564)        | (319,123)        |
| Repayment of long term debt                                                       | (2,142)                   | (5,597)          | (3,049)          |
| Principal payments under capital lease obligations                                | (309)                     | (279)            | (468)            |
| Net proceeds from life insurance death benefit                                    | —                         | 2,529            | —                |
| Net proceeds from issuance of common stock                                        | 4,835                     | 1,616            | 341              |
| Net cash provided by (used in) financing activities                               | <u>20,809</u>             | <u>(36,621)</u>  | <u>8,705</u>     |
| Net increase (decrease) in cash                                                   | 4,846                     | (218)            | 2,154            |
| Cash and cash equivalents at beginning of year                                    | 8,927                     | 9,145            | 6,991            |
| Cash and cash equivalents at end of year                                          | <u>\$ 13,773</u>          | <u>\$ 8,927</u>  | <u>\$ 9,145</u>  |
| <b>Supplemental disclosures of cash flow information:</b>                         |                           |                  |                  |
| Cash paid during the year for:                                                    |                           |                  |                  |
| Interest                                                                          | \$ 3,789                  | \$ 4,338         | \$ 6,423         |
| Income taxes                                                                      | 23,774                    | 13,770           | 16,324           |

The accompanying notes are an integral part of this statement.



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## Notes to Consolidated Financial Statements

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

#### *Nature of Business*

The Company is the largest operator of retail farm and ranch stores in the United States. The Company is focused on supplying the lifestyle needs of recreational farmers and ranchers and serving the maintenance needs of those who enjoy the rural lifestyle, as well as tradesmen and small businesses. Stores are located in towns outlying major metropolitan markets and in rural communities. The Company operated 433 retail farm stores in 30 states as of December 28, 2002.

#### *Fiscal Year*

The Company's fiscal year ends on the Saturday closest to December 31.

#### *Principles of Consolidation*

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

#### *Management Estimates*

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

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

#### Inventory Valuation

The Company identifies potentially excess and slow-moving inventory by evaluating turn rates and overall inventory levels. Excess quantities are identified through the application of benchmark turn targets and historical sales experience. Further, exposure to inadequate realization of carrying value is identified through analysis of gross margin achievement and markdown experience, in combination with all merchandising initiatives. The estimated reserve is based on management's current knowledge with respect to inventory levels, sales trends and historical experience relating to the sale of the excess and/or slow-moving inventory. Management does not believe the Company's merchandise inventories are subject to significant risk of obsolescence in the near-term, and management has the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns could result in the need for additional reserves.

#### Inventory Shrinkage

The Company estimates its expected shrinkage of inventory between physical inventory counts 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.

#### Sales Returns

The Company generally honors customer refunds within 30 days of the original purchase, with the supporting receipt. The Company estimates its reserve for likely customer returns based on the average refund experience in relation to sales for the related period. Due to the seasonality of the Company's sales, the refund experience can vary, depending on the fiscal quarter of measurement.

#### Self-insurance

The Company is self-insured for certain losses relating to workers' compensation, medical and general liability claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates of the aggregate liability for uninsured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Although management believes it has the ability to adequately record estimated losses related to claims, it is possible that actual results could significantly differ from recorded self-insurance liabilities.

## Notes to Consolidated Financial Statements

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### **Revenue Recognition**

The Company recognizes revenue when sales transactions occur and customers take possession of the merchandise. A provision for anticipated merchandise returns is provided in the period during which the related sales are recorded.

### **Store Pre-opening Costs**

Non-capital expenditures incurred in connection with start-up activities, including organizational costs, are expensed as incurred.

### **Store Closing Costs**

The Company has recognized store-closing costs (primarily remaining lease obligations and disposals of property and equipment) at the time the plan for the related store closing or relocation was finalized. Beginning in fiscal 2003, the Company will recognize such costs at the time of the actual closing or relocation, in accordance with the new requirements of Statement of Financial Accounting Standards No. 146 ("SFAS 146") (Note 17).

### **Cash and Cash Equivalents**

The Company considers temporary cash investments, with a maturity of three months or less when purchased, to be cash equivalents.

### **Fair Value of Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, short-term trade receivables and payables and long-term debt instruments, including capital leases. The carrying values of cash and cash equivalents, trade receivables and trade payables equal current fair value. The terms of the Company's revolving credit agreement and term loan agreement include variable interest rates, which approximate current market rates.

### **Derivative Instruments and Hedging Activities**

The Company complies with SFAS Nos. 133, 137, and 138 (collectively "SFAS 133") pertaining to the accounting for derivatives and hedging activities. SFAS 133 requires the Company to recognize all derivative instruments in the balance sheet at fair value. SFAS 133 impacts the accounting for the Company's interest rate swap agreement, which is designated as a cash flow hedge.

### **Inventories**

The value of the Company's inventories was determined using the lower of last-in, first-out (LIFO) cost or market. Inventories are not in excess of market value. Quarterly inventory determinations under LIFO are based on assumptions as to projected inventory levels at the end of the fiscal year, sales for the year and the rate of inflation/deflation for the year. If the first-in, first-out (FIFO) method of accounting for inventory had been used, inventories would have been approximately \$5,267,000 and \$6,631,000 higher than reported at December 28, 2002 and December 29, 2001, respectively.

### **Freight Costs**

The Company incurs various types of transportation and delivery costs in connection with inventory purchases and distribution. Such costs are included as a component of the overall cost of merchandise.

### **Property and Equipment**

Property and equipment are carried at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Improvements to leased premises are amortized using the straight-line method over the life of the lease or the useful life of the improvement, whichever is shorter. The following estimated useful lives are generally applied:

|                                   | Life          |
|-----------------------------------|---------------|
| Buildings                         | 30 - 35 years |
| Leasehold improvements            | 5 - 15 years  |
| Furniture, fixtures and equipment | 5 - 10 years  |
| Computer software                 | 3 - 5 years   |



## Notes to Consolidated Financial Statements

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### ***Impairment of Long-Lived Assets***

The Company complies with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" in the recognition of asset impairment. Accordingly, the Company reviews long-lived assets for impairment when circumstances indicate the carrying amount of the asset may not be recoverable. Impairment is recognized on assets classified as held and used when the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. Impairment on long-lived assets to be disposed of is recognized by writing down the related assets to their fair value (less costs to sell, as appropriate), when the criteria have been met for the asset to be classified as held for sale or disposal.

### ***Advertising Costs***

Advertising costs consist of expenses incurred in connection with newspaper circulars, television and radio, as well as direct mail, newspaper advertisements and other promotions. Expenses incurred are charged to operations at the time the related advertising first takes place. Advertising expenses net of vendor-provided funding for fiscal 2002, 2001 and 2000 were approximately \$363,000, \$5,012,000 and \$8,063,000, respectively.

In the first quarter of fiscal 2003, the Company will adopt the provisions of the Emerging Issues Task Force ("EITF") Issue No. 02-16 ("EITF 02-16"), "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor." Upon adoption, vendor-provided funding will be recognized as a reduction of cost of sales as the related vendor's purchased inventory is sold. The Company will implement the recognition requirements of this issue on a prospective basis in the first quarter of fiscal 2003 and has not yet determined the impact that adoption will have on its fiscal year-end 2003 financial position or results of operations. Adoption of this requirement will have no impact on cash flows.

### ***Income Taxes***

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

### ***Excess of Fair Value of Assets Acquired Over Cost***

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 142, "Goodwill and Other Intangible Assets." Under SFAS 142, goodwill amortization ceases when the new standard is adopted. The new rule also requires an initial goodwill impairment assessment in the year of adoption and annual impairment tests thereafter. The Company adopted this Statement in fiscal 2002, as required. At December 29, 2001, the Company had unamortized negative goodwill of \$175,000 which was released into income in the first quarter of fiscal 2002.

### ***Stock-based Compensation Plans***

As permitted by SFAS 123, "Accounting for Stock-Based Compensation," the Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees." Under APB No. 25, compensation expense would be recorded if the current market price of the underlying stock on the date of grant exceeded the exercise price. The Company has adopted the disclosure requirements of SFAS 123 and SFAS 148.

### ***Net Income Per Share***

The Company presents both basic and diluted earning per share ("EPS") on the face of the income statement. As provided by SFAS 128, basic EPS is calculated as income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted EPS is calculated using the treasury stock method for options and warrants. All earnings per share data included in the consolidated financial statements and notes thereto have been restated to give effect to a two-for-one stock split (Note 9).

### ***Reclassifications***

Certain amounts in previously issued financial statements were reclassified to conform to fiscal 2002 presentations.



## Notes to Consolidated Financial Statements

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### **NOTE 2 - SIGNIFICANT ASSET PURCHASE:**

On December 31, 2001, the Company, through a joint venture with Great American Group, Gordon Brothers Retail Partners, LLC and DJM Asset Management LLC, was the successful bidder at a liquidation bankruptcy auction for the buildings, improvements, fixtures and lease rights of certain retail stores formerly operated by Quality Stores, Inc., a debtor and debtor in possession under Chapter 11 of the United States Bankruptcy Code. The Company's share of the bid totaled \$34.0 million and was funded entirely through the Senior Credit Facility.

Under its agreement with the other joint venture partners, the Company acquired the buildings for 24 retail stores, assumed the building lease rights for 76 additional retail stores and acquired the related equipment, furniture and fixtures. The liquidation of the existing inventory by other members of the joint venture was completed in late February 2002, with the Company having conducted hiring, training, refurbishment and merchandising efforts throughout the first fiscal quarter. The transition of these locations, which was completed in the third quarter of fiscal 2002, included the opening of new stores as well as the relocation of existing stores into the newly acquired properties.

The Company intends to sell three excess buildings acquired in the purchase and is actively marketing these locations. The sale of these locations is expected within twelve months. The assigned value for these three locations is included as assets held for sale in the accompanying consolidated balance sheet at December 28, 2002 (Note 3).

### **NOTE 3 - ASSETS HELD FOR SALE:**

Assets held for sale consists of certain buildings and properties that the Company either acquired through the significant asset purchase as described in Note 2 or that the Company vacated upon relocation of a store.

The Company applies the provisions of SFAS 144 to assets held for sale. SFAS 144 requires assets held for sale to be valued on an asset-by-asset basis at the lower of carrying amount or fair value less costs to sell. In applying these provisions, recent appraisals, valuations, offers and bids are considered. The Company recorded an impairment charge of \$558,000 in 2002 to adjust the carrying value of certain property and equipment related to vacated stores to fair value, less costs to sell. In addition, in December 2002, the Company decided to retain an asset previously classified as an asset held for sale as the Company believes the geographic location of the property is favorable. The asset (approximately \$1.7 million) was reclassified from assets held for sale to property and equipment.

The buildings and properties held for sale are separately presented as assets held for sale in the accompanying consolidated balance sheets. The assets are classified as current, as the Company believes they will be sold within the next twelve months and have met all the criteria for classification as held for sale pursuant to SFAS 144.

### **NOTE 4 - SENIOR CREDIT FACILITY:**

In November 2000, the Company entered into a three-year unsecured senior revolving credit facility with Bank of America, N.A., as agent for a lender group (the "Senior Credit Facility"), whereby the Company was permitted to borrow up to \$125.0 million. In October 2001, the Company extended its Senior Credit Facility by one year, thus extending the maturity to November 2004.

In August 2002, the Company entered into a replacement unsecured senior revolving credit facility with Bank of America, N.A. as agent for a lender group, expanding the maximum available borrowing from \$125.0 million to \$155.0 million, extending the maturity to February 2006 and increasing the number of participating banks from seven to ten. Of the total \$155.0 million commitment at December 28, 2002, \$3.9 million has been utilized for the issuance of letters of credit relating to insurance policies and import merchandise. The outstanding borrowings under this Senior Credit Facility totaled \$33.5 million at December 28, 2002 and \$15.1 million at December 29, 2001. The balance of funds available under the Senior Credit Facility may be utilized for borrowings and up to \$46.1 million for additional letters of credit. The Senior Credit Facility bears interest at either the bank's prime rate (4.25% at December 28, 2002) or the London Inter-Bank Offer Rate ("LIBOR") (1.42% at December 28, 2002) plus an additional amount ranging from .75% to 1.5% per annum, adjusted quarterly based on Company performance (1.00% at December 28, 2002). The Company is also required to pay, quarterly in arrears, a commitment fee ranging from 0.20% to 0.35% per annum, adjusted quarterly based on Company performance, on the average daily unused portion



## Notes to Consolidated Financial Statements

of the credit line. There are no compensating balance requirements associated with the Senior Credit Facility.

The Senior Credit Facility contains certain restrictions regarding additional indebtedness; capital expenditures; business operations; guarantees; investments; mergers; consolidations and sales of assets; transactions with subsidiaries or affiliates; and liens. In addition, the Company must comply with certain quarterly restrictions (based on a rolling four-quarters basis) regarding net worth, leverage ratio, fixed charge coverage and current ratio requirements. The Company was in compliance with all covenants at December 28, 2002.

The Company had letters of credit outstanding totaling \$3.9 million at both December 28, 2002 and December 29, 2001. These letters of credit were issued primarily for the purchase of inventory.

### NOTE 5 - OTHER LONG-TERM DEBT:

In June 1998, the Company entered into a new loan agreement (the "Loan Agreement") and term note (the "Term Note") pursuant to which the Company borrowed \$15 million. Until amended as discussed below, the Term Note carried interest at the rate of 6.75% per annum until its maturity in June 2005. The Term Note requires monthly payments equal to \$178,572, plus accrued interest, through June 2005. There are no compensating balance requirements associated with the Loan Agreement. The Loan Agreement is unsecured. In November 2000, in connection with the closing of the Senior Credit Facility, the Company amended the Loan Agreement and Term Note to provide that the existing indebtedness both matures and bears interest under the same provision as that in the Senior Credit Facility and the restrictive covenants were modified to be the same as those in the Senior Credit Facility (Note 4).

In August 2002, in connection with the replacement of the Senior Credit Facility, the Company amended the Loan Agreement and Term Note. The terms of the agreement were amended to provide that the existing indebtedness would bear interest under the same provisions as that in the Senior Credit Facility and the restrictive covenants would be modified to be the same as those in the senior revolving credit facility (Note 4). The maturity date of the Loan Agreement and Term Note remained June 2005. The Company was in compliance with all covenants at December 28, 2002. Under the Loan Agreement and Term Note, the Company had \$5.5 million outstanding at December 28, 2002 and \$7.7 million outstanding at December 29, 2001, of which \$2.1 million was classified as current in both years.

Future maturities of long-term debt, including long-term amounts under the Senior Credit Facility, as of December 28, 2002 are as follows:

|      |                  |
|------|------------------|
| 2003 | \$ 2,142         |
| 2004 | 2,142            |
| 2005 | 1,253            |
| 2006 | 33,542           |
|      | <u>\$ 39,079</u> |

In April 1988, the Company issued notes (the "Mortgage Notes") pursuant to a Note Agreement, which was amended in April 1991, February 1992 and July 1993 (the "Mortgage Loan Agreement"). The Mortgage Notes bore interest at a minimum 10.32% rate until their scheduled maturity in January 2004. The Mortgage Notes required monthly payments, including interest, of approximately \$109,000 through January 2004. As of December 30, 2000 the Mortgage Notes remaining balance was approximately \$3,456,000 of which \$1,004,000 was included in current maturities of long-term debt. In August 2001, the Company prepaid the remaining outstanding balance on the Mortgage Notes.

### NOTE 6 - LEASES:

The Company leases the majority of its office and warehouse/distribution space, most of its retail store locations, transportation equipment and other equipment under various noncancelable operating leases. The leases have varying terms and expire at various dates through February 2029. The store leases typically have initial terms of between 10 and 15 years, with one to three renewal periods of five years each, exercisable at the Company's option. Generally, most of the leases require the Company to pay taxes, insurance and maintenance costs.

Total rent expense for fiscal 2002, 2001 and 2000 was approximately \$51,952,000, \$36,733,000 and \$31,620,000, respectively.





## Notes to Consolidated Financial Statements

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

|                                              | Capital<br>Leases | Operating<br>Leases |
|----------------------------------------------|-------------------|---------------------|
| 2003                                         | \$ 579            | \$ 43,101           |
| 2004                                         | 536               | 40,161              |
| 2005                                         | 497               | 37,490              |
| 2006                                         | 166               | 34,215              |
| 2007                                         | 166               | 31,035              |
| Thereafter                                   | 3,525             | 159,834             |
| Total minimum lease payments                 | 5,469             | \$ 345,836          |
| Amount representing interest                 | (2,966)           |                     |
| Present values of net minimum lease payments | 2,503             |                     |
| Less: current portion                        | (340)             |                     |
| Long-term capital lease obligations          | \$ 2,163          |                     |

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

|                                | Dec. 28,<br>2002 | Dec. 29,<br>2001 |
|--------------------------------|------------------|------------------|
| Building and improvements      | \$ 3,756         | \$ 3,756         |
| Less: accumulated depreciation | (2,051)          | (1,889)          |
|                                | \$ 1,705         | \$ 1,867         |

### NOTE 7 – DERIVATIVE FINANCIAL INSTRUMENTS:

The Company has entered into an interest rate swap agreement as a means of managing its interest rate exposure. This agreement has the effect of converting certain of the Company's variable rate obligations to fixed rate obligations.

The Company complies with SFAS 133 and recognizes the fair value of the interest rate swap in its consolidated balance sheet. The Company regularly adjusts the carrying value of the interest rate swap to reflect its current fair value. The related gain or loss on the swap is deferred in stockholders' equity (as a component of comprehensive income) to the extent that the swap was an effective hedge. The deferred gain or loss is recognized in income in the period in which the related interest rate payments being hedged have been recognized as an expense. However, to the extent that the change in value of an interest rate swap contract does not perfectly offset the change in the interest rate payments being hedged, the ineffective portion is immediately recognized as an expense. Net amounts paid or received are reflected as adjustments to interest expense.

The Company expects to recognize income of approximately \$100,000 on interest rate swaps from accumulated other comprehensive loss to earnings over the next ten months.

### NOTE 8 - INCOME TAXES:

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

|                       | 2002      | 2001      | 2000      |
|-----------------------|-----------|-----------|-----------|
| Current tax expense:  |           |           |           |
| Federal               | \$ 23,536 | \$ 13,159 | \$ 11,200 |
| State                 | 2,359     | 2,358     | 3,264     |
| Total current         | 25,895    | 15,517    | 14,464    |
| Deferred tax benefit: |           |           |           |
| Federal               | (3,188)   | (4,154)   | (2,337)   |
| State                 | (744)     | (611)     | (921)     |
| Total deferred        | (3,932)   | (4,765)   | (3,258)   |
| Total provision       | \$ 21,963 | \$ 10,752 | \$ 11,206 |



## Notes to Consolidated Financial Statements

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

|                                                   | Dec. 28,<br>2002  | Dec. 29,<br>2001 |
|---------------------------------------------------|-------------------|------------------|
| Current tax assets:                               |                   |                  |
| Inventory valuation                               | \$ 4,174          | \$ 3,857         |
| Interest rate swap                                | 603               | —                |
| Accrued employee benefit costs                    | 3,051             | 1,301            |
| Other                                             | 3,538             | 1,921            |
|                                                   | <u>11,366</u>     | <u>7,079</u>     |
| Current tax liabilities:                          |                   |                  |
| Inventory basis difference                        | (3,504)           | (6,557)          |
| Other                                             | (78)              | (696)            |
|                                                   | <u>(3,582)</u>    | <u>(7,253)</u>   |
| Net current tax asset (liability)                 | <u>\$ 7,784</u>   | <u>\$ (174)</u>  |
| Non-current tax assets:                           |                   |                  |
| Capital lease obligation basis difference         | \$ 1,181          | \$ 1,206         |
| Fixed assets basis difference                     | —                 | 904              |
| Interest rate swap                                | —                 | 902              |
| Rent expenses in excess of cash payments required | 2,824             | 2,188            |
| Other                                             | 606               | 638              |
|                                                   | <u>4,611</u>      | <u>5,838</u>     |
| Non-current tax liabilities:                      |                   |                  |
| Depreciation                                      | (5,330)           | (2,345)          |
| Capital lease assets basis difference             | (731)             | (752)            |
| Other                                             | (134)             | —                |
|                                                   | <u>(6,195)</u>    | <u>(3,097)</u>   |
| Net non-current tax asset (liability)             | <u>\$ (1,584)</u> | <u>\$ 2,741</u>  |

Management has evaluated the need for a valuation allowance for all or a portion of the deferred tax assets and believes that all of the deferred tax assets will more likely than not be realized through the future earnings of the Company.

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

|                                                | 2002             | 2001             | 2000             |
|------------------------------------------------|------------------|------------------|------------------|
| Tax provision at statutory rate                | \$ 21,257        | \$ 12,784        | \$ 9,659         |
| Tax effect of:                                 |                  |                  |                  |
| State income taxes, net of federal tax benefit | 634              | 1,369            | 1,577            |
| Life insurance proceeds                        | —                | (926)            | —                |
| Previously accrued income taxes                | —                | (2,500)          | —                |
| Amortization of negative goodwill              | (61)             | (63)             | (73)             |
| Other                                          | 133              | 88               | 43               |
|                                                | <u>\$ 21,963</u> | <u>\$ 10,752</u> | <u>\$ 11,206</u> |



## Notes to Consolidated Financial Statements

The Company reevaluated its tax exposure during the quarter ended December 29, 2001 and, as a result of the favorable resolution of certain tax issues, along with the closing of open tax years, the Company reduced previously accrued income tax liabilities by \$2.5 million.

### NOTE 9 - CAPITAL STOCK:

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

On July 18, 2002, the Company's Board of Directors approved a two-for-one split of the Company's common stock. As a result, stockholders received one additional share on August 19, 2002 for each share held as of the record date of August 2, 2002. The par value of the Company's common stock remains \$0.008. All share and per share data included in the consolidated financial statements and notes thereto has been restated to give effect to the stock split.

### NOTE 10 - COMPREHENSIVE INCOME:

Comprehensive income includes the change in the fair value of the Company's interest rate swap agreement (expiring in November 2003), which qualifies for hedge accounting. Comprehensive income for each fiscal year is as follows (in thousands):

|                                                                                                                                              | 2002             | 2001             |
|----------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Net income - as reported                                                                                                                     | \$ 38,770        | \$ 25,774        |
| Unrealized gain (loss) on interest rate swap agreement, net of tax effect of \$299 provision and \$902 credit in 2002 and 2001, respectively | 449              | (1,422)*         |
| Comprehensive income                                                                                                                         | <u>\$ 39,219</u> | <u>\$ 24,352</u> |

\* Reflects cumulative effect upon initial adoption.

### NOTE 11 - NET INCOME PER SHARE:

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

|                                     | 2002             |               |                  |
|-------------------------------------|------------------|---------------|------------------|
|                                     | Income           | Shares        | Per Share Amount |
| <b>Basic net income per share:</b>  |                  |               |                  |
| Net income                          | \$ 38,770        | 18,056        | \$2.15           |
| Dilutive stock options outstanding  |                  | 1,582         |                  |
| <b>Diluted net income per share</b> | <u>\$ 38,770</u> | <u>19,638</u> | <u>\$1.97</u>    |
|                                     | 2001             |               |                  |
|                                     | Income           | Shares        | Per Share Amount |
| <b>Basic net income per share:</b>  |                  |               |                  |
| Net income                          | \$ 25,774        | 17,648        | \$1.46           |
| Dilutive stock options outstanding  |                  | 433           |                  |
| <b>Diluted net income per share</b> | <u>\$ 25,774</u> | <u>18,081</u> | <u>\$1.43</u>    |
|                                     | 2000             |               |                  |
|                                     | Income           | Shares        | Per Share Amount |
| <b>Basic net income per share:</b>  |                  |               |                  |
| Net income                          | \$ 16,390        | 17,564        | \$ 0.93          |
| Dilutive stock options outstanding  |                  | —             |                  |
| <b>Diluted net income per share</b> | <u>\$ 16,390</u> | <u>17,564</u> | <u>\$ 0.93</u>   |



## Notes to Consolidated Financial Statements

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Anti-dilutive stock options excluded from the above calculations totaled 609,328 and 1,723,076 in 2001 and 2000, respectively. There were no anti-dilutive stock options excluded from the calculations for fiscal 2002.

### **NOTE 12 - RELATED PARTY TRANSACTIONS:**

In 1986, the Company entered into capitalized sale-leaseback transactions with certain officers and directors of the Company for three of its stores. The Company sold, leased back and provided the financing for these properties at estimated fair values. The related gains arising from the sale of these properties have been deferred and are being amortized on a straight-line basis over the terms of the related leases. Properties under capital leases acquired through sale-leaseback transactions have been reduced by the related deferred gains on the properties and are classified with property and equipment. The leases have basic terms of 20 years with options to renew for two successive five-year terms. The Company has an option to purchase the leased properties after December 31, 1995. The officers and directors have repaid their outstanding obligations under these notes to the Company. In June 2000, the Company closed operations at one of these facilities. In December 2000, the Company paid \$200,000 to terminate the lease on that facility. The balance of the remaining two capitalized lease obligations, included in total capital lease obligations, was \$334,000 and \$423,000 at December 28, 2002 and December 29, 2001, respectively. Rent payments under these leases were approximately \$171,000 in fiscal 2002, 2001 and 2000.

Prior to fiscal 2001, the Company leased its management headquarters from a partnership in which certain stockholders of the Company are general partners. In December 2000, the management headquarters was sold to an unrelated third party. Rent payments made to related parties under this lease totaled \$385,000 in fiscal 2000.

### **NOTE 13 - RETIREMENT BENEFIT PLANS:**

The Company has a defined contribution benefit plan, the Tractor Supply Company Restated 401(k) Retirement Plan (the "Plan"), which provides retirement and other benefits for the Company's employees. Employees become eligible for participation at age 21 and upon completion of 12 consecutive months of employment and 1,000 or more hours of service. The Company matches (in cash) 100% of the employee's elective contributions up to 3% of the employee's compensation plus 50% of the employee's elective contributions from 3% to 6% of the employee's compensation. In no event shall the total Company match made on behalf of the employee exceed 4.5% of the employee's compensation. Effective in fiscal 2000, all current employer contributions are immediately 100% vested. Company contributions to the Plan during fiscal 2002, 2001 and 2000 were approximately \$1,397,000 (net of applied forfeitures of \$48,000), \$1,022,000 (net of applied forfeitures of \$98,000) and \$521,000 (net of applied forfeitures of \$677,000), respectively.

In fiscal 2002, the Company began offering, through a deferred compensation program, the opportunity for certain qualifying employees to elect a deferral of up to 40% of their annual base salary and up to 100% of their annual incentive under their respective incentive programs. To be eligible for the salary deferral, each participant must contribute the maximum amount of salary to the Company's 401(k) Plan subject to the Company's match. Under the deferred compensation program, the participants' salary deferral is matched by the Company, 100% on the first 3% of base salary contributed and 50% on the next 3% of base salary contributed. Each participant's account earns simple annual interest at the prime rate as in effect on January 1 each year. Each participant is fully vested in all amounts credited to their deferred compensation account. Payments under the program are made within 30 days following the earlier of the participant's (i) death, (ii) retirement, (iii) total and permanent disability, (iv) termination of employment with the Company or (v) some other date designated by the participant at the time of the initial deferral. Payments are made in cash and shall be paid in ten annual installments or in a single lump sum payment, at the election of the participant. The Company's contribution, including accrued interest, was \$93,000 for fiscal 2002.





## Notes to Consolidated Financial Statements

### NOTE 14 - STOCK-BASED COMPENSATION PLANS:

#### *Fixed Stock Option Plan*

The Company has stock option plans for officers, directors (including non-employee directors) and key employees which reserve 4,000,000 shares of common stock for future issuance. According to the terms of the plans, the per share exercise price of options granted shall not be less than the fair market value of the stock on the date of grant and such options will expire no later than ten years from the date of grant. In the case of a stockholder owning more than 10% of the outstanding voting stock of the Company, the exercise price of an incentive stock option may not be less than 110% of the fair market value of the stock on the date of grant and such options will expire no later than five years from the date of grant. Also, the aggregate fair market value of the stock with respect to which incentive stock options are exercisable on a tax deferred basis for the first time by an individual in any calendar year may not exceed \$100,000. Options granted prior to fiscal 2002 generally vest one-third each year beginning on the third anniversary date of the grant and expire after ten years, provided, however, that options granted to non-employee directors vest one-third each year beginning on the first anniversary of the grant. All options granted after fiscal 2001 vest one-third each year beginning on the first anniversary of the grant.

Plan activity is summarized as follows:

|                                  | <u>Number of<br/>Shares</u> | <u>Weighted Average<br/>Exercise Price</u> |
|----------------------------------|-----------------------------|--------------------------------------------|
| Outstanding at January 1, 2000   | 1,203,000                   | \$ 10.57                                   |
| Granted                          | 742,000                     | \$ 7.06                                    |
| Canceled                         | <u>(271,334)</u>            | \$ 9.51                                    |
| Outstanding at December 30, 2000 | 1,673,666                   | \$ 9.19                                    |
| Exercised                        | (132,878)                   | \$ 9.30                                    |
| Granted                          | 792,000                     | \$ 6.71                                    |
| Canceled                         | <u>(239,366)</u>            | \$ 9.02                                    |
| Outstanding at December 29, 2001 | 2,093,422                   | \$ 8.26                                    |
| Exercised                        | (409,905)                   | \$ 10.25                                   |
| Granted                          | 622,800                     | \$ 18.22                                   |
| Canceled                         | <u>(36,000)</u>             | \$ 11.53                                   |
| Outstanding at December 28, 2002 | <u>2,270,317</u>            | \$ 10.59                                   |

The following table summarizes information concerning currently outstanding and exercisable options:

| <u>Year</u> | <u>Range of<br/>Exercise Prices</u> | <u>Number<br/>Outstanding</u> | <u>Options</u>                                                     | <u>Outstanding</u>                                 | <u>Options<br/>Exercisable</u> |
|-------------|-------------------------------------|-------------------------------|--------------------------------------------------------------------|----------------------------------------------------|--------------------------------|
|             |                                     |                               | <u>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life</u> | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> |                                |
| 1994        | \$10.75 - \$13.50                   | 4,000                         | 1.36                                                               | \$ 12.13                                           | 4,000                          |
| 1995        | \$10.65 - \$11.06                   | 4,000                         | 2.08                                                               | \$ 11.06                                           | 4,000                          |
| 1996        | \$10.69 - \$12.56                   | 11,666                        | 3.07                                                               | \$ 10.69                                           | 11,666                         |
| 1997        | \$ 8.87 - \$10.00                   | 82,427                        | 4.61                                                               | \$ 9.15                                            | 82,427                         |
| 1998        | \$ 7.22 - \$12.15                   | 11,337                        | 5.17                                                               | \$ 9.40                                            | 8,366                          |
| 1999        | \$12.90 - \$13.37                   | 211,287                       | 6.07                                                               | \$ 12.92                                           | 81,155                         |
| 2000        | \$ 7.47 - \$ 7.58                   | 512,000                       | 7.09                                                               | \$ 7.47                                            | 12,060                         |
| 2000        | \$ 4.48                             | 100,000                       | 7.84                                                               | \$ 4.48                                            | —                              |
| 2001        | \$ 6.71                             | 725,600                       | 8.08                                                               | \$ 6.71                                            | 5,280                          |
| 2002        | \$17.82 - \$19.60                   | 601,000                       | 8.24                                                               | \$ 18.11                                           | —                              |
| 2002        | \$28.44                             | 7,000                         | 9.55                                                               | \$ 28.44                                           | —                              |



## Notes to Consolidated Financial Statements

Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed by SFAS 123, the Company's pro forma net income and net income per share, for fiscal 2002, 2001 and 2000, would have been as follows (in thousands, except per share amounts):

|                                            | <u>2002</u>      | <u>2001</u>      | <u>2000</u>      |
|--------------------------------------------|------------------|------------------|------------------|
| Net income - As reported                   | \$ 38,770        | \$ 25,774        | \$ 16,390        |
| Pro forma compensation expense, net of tax | (1,836)          | (922)            | (723)            |
| Net income - Pro forma                     | <u>\$ 36,934</u> | <u>\$ 24,852</u> | <u>\$ 15,667</u> |
| Net income per share – basic:              |                  |                  |                  |
| As reported                                | \$ 2.15          | \$ 1.46          | \$ 0.93          |
| Pro forma                                  | \$ 2.05          | \$ 1.41          | \$ 0.89          |
| Net income per share – diluted:            |                  |                  |                  |
| As reported                                | \$ 1.97          | \$ 1.43          | \$ 0.93          |
| Pro forma                                  | \$ 1.88          | \$ 1.38          | \$ 0.89          |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions.

|                               | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|-------------------------------|-------------|-------------|-------------|
| Expected volatility           | 43.6%       | 43.8%       | 39.8%       |
| Risk-free interest rate       | 5.0%        | 5.1%        | 5.5%        |
| Average expected life (years) | 7.1         | 7.5         | 7.25        |
| Dividend yield                | 0%          | 0%          | 0%          |
| Weighted average fair value   | \$ 9.74     | \$ 3.71     | \$ 3.55     |

### ***Employee Stock Purchase Plan***

The Company provides an Associate Stock Purchase Plan (the "ASPP") whereby eligible employees of the Company have the opportunity to purchase, through payroll deductions, shares of common stock of the Company at a 15% discount. Pursuant to the terms of the ASPP, the Company issued 35,687, 69,430 and 46,842 shares of common stock in fiscal 2002, 2001 and 2000, respectively.

### **NOTE 15 - GAIN ON PROCEEDS FROM LIFE INSURANCE:**

In April 2001, a former executive of the Company, on whom the Company carried a life insurance policy, passed away. As a result of the related coverage, the Company realized a \$2.2 million gain on the life insurance proceeds.

### **NOTE 16 - CONTINGENCIES:**

#### ***Litigation***

The Company is involved in various litigation arising in the ordinary course of business. After consultation with legal counsel, management expects these matters will be resolved without material adverse effect on the Company's consolidated financial position or results of operations. Any estimated loss has been adequately provided in accrued liabilities to the extent probable and reasonably estimable. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

#### ***Environmental Matters***

In connection with certain contaminated leased properties that the Company relocated from in 2002, the Company has agreed to indemnify property owners with respect to environmental liabilities associated with the use of those properties, as defined in the related lease agreements. During fiscal 2002, the Company has not paid or accrued material



## Notes to Consolidated Financial Statements

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amounts related to these properties. Because of the uncertainties associated with environmental assessment and remediation activities, the Company's future expenses to remediate the currently identified sites could be higher than amounts accrued. Future expenditures for environmental remediation may be affected in the near-term by identification of additional contaminated sites, the level and type of contamination found and the extent and nature of cleanup activities required.

### **NOTE 17 - RECENTLY ISSUED ACCOUNTING STANDARDS:**

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections," which required gains and losses from extinguishment of debt to no longer be classified as extraordinary items net of related income tax effect. SFAS 145 requires that extinguishment gains or losses be classified as ordinary gains or losses and that all such gains or losses in prior periods be reclassified to ordinary gain or loss in comparative financial statements. SFAS 145, which applies to all entities, is effective for fiscal years beginning after May 15, 2002. The Company expects that the adoption of SFAS 145 during fiscal 2003 will have no impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," requiring that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146, which applies to all entities, is effective for exit or disposal activities that are initiated after December 31, 2002. The Company expects that the adoption of SFAS 146 during fiscal 2003 will not materially impact the Company's financial position or results of operations.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 02-16 ("EITF 02-16"), "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor." This issue involves the accounting and income statement classification for consideration given by a vendor to a retailer in connection with the sale of the vendor's products or for the promotion of sales of the vendor's products. The EITF concluded that such consideration received from vendors should be reflected as a decrease in prices paid for inventory and recognized in cost of sales as the related inventory is sold, unless specific criteria are met qualifying the consideration for treatment as reimbursement of specific, identifiable incremental costs. Prior to adopting this pronouncement, the Company classified all vendor-provided marketing support funds as a reduction in selling, general and administrative expenses. Upon adoption, these funds received from vendors will be recognized as a reduction of cost of sales as the related vendor's purchased inventory is sold. As clarified by the EITF in January 2003, this issue is effective for arrangements with vendors initiated on or after January 1, 2003. The Company will implement the recognition requirements of this issue in the first quarter of fiscal 2003 and has not yet determined the impact that adoption will have on its fiscal year-end 2003 financial position or results of operations. Adoption of this requirement will have no impact on cash flows.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amends SFAS 123 "Accounting for Stock-Based Compensation." SFAS 148 provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. SFAS 148 is effective for financial statements issued for fiscal years ending after December 15, 2002, and interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", as disclosed in Note 14 of Notes to Consolidated Financial Statements and does not utilize the fair value method. However, the Company has adopted the disclosure requirements of SFAS 123 and has adopted the additional disclosure requirements as specified in SFAS 148 in fiscal 2002.

# ★ BOARD OF DIRECTORS ★



*SEATED, Left to Right: Pete Braud, Joe Scarlett, Jim Wright  
STANDING, Left to Right: Cynthia Jamison, Joe Rodgers, Sam Reed, Gerry Jones, Joe Maxwell, Tom Flood*

## **JOE SCARLETT**

*Chairman of the Board  
Chief Executive Officer  
Tractor Supply Company*

## **JIM WRIGHT**

*President  
Chief Operating Officer  
Tractor Supply Company*

## **PETE BRAUD** (1)\*(4)

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

## **TOM FLOOD**

*Retired Senior Vice President  
Tractor Supply Company*

## **CYNTHIA JAMISON** (1)(2)\*(3)

*Partner  
Tatum CFO Partners, LLP*

## **GERRY JONES** (3)\*

*Of Counsel to  
Shipman & Goodwin, LLP*

## **JOE MAXWELL**

*Retired Vice President  
Tractor Supply Company*

## **SAM REED** (2)(3)(4)\*

*Retired Vice Chairman and  
Director  
Kellogg Company*

## **JOE RODGERS** (1)(2)(4)

*Chairman of the Board  
The JMR Group  
Former U.S. Ambassador to France*

(1) AUDIT COMMITTEE (2) COMPENSATION COMMITTEE (3) NOMINATING COMMITTEE (4) CORPORATE GOVERNANCE COMMITTEE \* Committee Chairperson

# ★ EXECUTIVE OFFICERS ★

## **JOE SCARLETT**

*Chairman of the Board  
Chief Executive Officer*

## **JIM WRIGHT**

*President  
Chief Operating Officer*

## **JERRY BRASE**

*Senior Vice President  
Merchandising*

## **CAL MASSMANN**

*Senior Vice President  
Chief Financial Officer*

## **STAN RUTA**

*Senior Vice President  
Store Operations*



ROA\_004324



# ★ SHAREHOLDER INFORMATION ★

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## CORPORATE ADDRESS

Tractor Supply Company  
320 Plus Park Blvd., Nashville, TN 37217  
615.366.4600

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## INTERNET ADDRESS

[www.myTSCstore.com](http://www.myTSCstore.com)

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## TRANSFER AGENT AND REGISTRAR

EquiServe Trust Company, N.A.  
Post Office Box 43010, Providence, RI 02940-3010

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## INDEPENDENT AUDITORS

Ernst & Young LLP  
SunTrust Financial Center, Suite 1100  
424 Church St., Nashville, TN 37219-3302

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## STOCK EXCHANGE LISTING

The Nasdaq National Market  
Ticker Symbol: TSCO

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## ANNUAL MEETING

April 17, 2003 at 10:00 a.m.  
Tractor Supply Company Store Support Center  
320 Plus Park Blvd., Nashville, TN 37217

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## NUMBER OF STOCKHOLDERS

As of January 31, 2003 there were approximately 100 stockholders of record. This number excludes an estimated 12,000 individual stockholders holding stock under nominee security position listings.

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## FORM 10-K

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available on the Company website, and can be sent to any stockholder upon written request to the Company.

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## QUARTERLY STOCK PRICE RANGE\*

|           | FISCAL 2002 |         |           | FISCAL 2001 |         |
|-----------|-------------|---------|-----------|-------------|---------|
|           | HIGH        | LOW     |           | HIGH        | LOW     |
| QUARTER 1 | \$23.30     | \$16.35 | QUARTER 1 | \$ 7.47     | \$ 4.25 |
| QUARTER 2 | \$36.62     | \$22.80 | QUARTER 2 | \$ 8.23     | \$ 6.75 |
| QUARTER 3 | \$36.10     | \$25.39 | QUARTER 3 | \$12.24     | \$ 7.40 |
| QUARTER 4 | \$45.50     | \$28.10 | QUARTER 4 | \$17.49     | \$ 8.73 |

\*adjusted to reflect stock split



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# ★ COMMUNITY ★

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## OUT HERE, A CAN-DO ATTITUDE GOES A LONG WAY.



Tractor Supply Company believes giving back to the community is important. That's why we take the can-do attitude our customers value outside the store walls to share it with our community.

We have supported the Future Farmers of America (FFA) for 18 consecutive years by funding the organization and sponsoring events on both state and national levels. Supporting the National FFA Career Show and Convention allows Tractor Supply Company to reach the large and important audience of young people who are interested in agriculture and exposes the Company to potential new team members!

The Company's Store Support Center was a pacesetter this year with our goal and commitment to the United Way Fund. We began our campaign early and exceeded our goals in participation and donations. The number of pledges and total dollars contributed increased significantly over last year—our team member participation was 90%, a 27% increase, and our contribution total increased nearly 61%. Tractor Supply Company is proud to be recognized in the United Way's Circle of Honor, which distinguishes those companies with campaigns that embrace the spirit of the giving philosophy in many different areas. The greatest reward of all is in knowing that Tractor Supply Company has made a difference in our community.

In November 2002, Company team members volunteered their Saturday for a "Farm Clean-Up Day" at the *SaddleUp!* facility in the Nashville area. *SaddleUp!* is a United Way organization that provides a therapeutic horse-back-riding program for physically and mentally challenged children. Over 35 Store Support Center team members pulled out their boots and gloves and spent the day painting a barn, mowing and trimming fields, cleaning out fence rows and even mucking stalls. A big pat on the back goes to everyone who volunteered to help!

Tractor Supply Company also sponsored the Cheekwood Botanical Garden Rare and Native Plant Auction in October 2002. Company banners and heavy duty wagons were used to promote our sponsorship. This weekend event was designed to attract hobby gardeners in the Nashville area and consisted of a garden tour, dinner, silent auction and a series of gardening workshops.

Each year, our stores participate in local charities and fund raising events within their areas. The 4-H Hog Roast and Car Show, FFA and 4-H Youth Fair, Fall Festival, Harvest Days, Horse Expo, Red Cross Blood Drives and the Annual Lock-up for the Muscular Dystrophy Association are just a few of the events our stores have hosted this past year. What a way to show our can-do attitude to the community!



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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 28 , 2002

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-23314

TRACTOR SUPPLY COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Delaware

13-3139732

(State or Other Jurisdiction of  
Incorporation or Organization)

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

320 Plus Park Boulevard, Nashville, Tennessee

37217

(Address of Principal Executive Offices)

(Zip Code)

Registrant’s Telephone Number, Including Area Code: (615) 366-4600

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

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

Common Stock, \$.008 par value

(Title of Class)

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 [X] NO [ ]

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES [X] NO [ ]

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing price of the Common Stock on The Nasdaq National Market on June 28, 2002, the last business day of the registrant’s most recently completed second fiscal quarter was \$504,561,709. For purposes of this response, the registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of its Common Stock are the affiliates of the registrant.

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

Class

Outstanding at January 31, 2003

Common Stock, \$.008 par value

18,287,468



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## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on April 17, 2003 are incorporated by reference into Part III of this Form 10-K. Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended December 28, 2002 are incorporated by reference into Parts II and IV of this Form 10-K.

## FORWARD-LOOKING STATEMENTS OR INFORMATION

This Form 10-K includes certain statements that may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements included or incorporated by reference in this Form 10-K which address activities, events or developments that the Company expects or anticipates 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 Company's business operations and other such matters are forward-looking statements.

All phases of the Company's operations are subject to influences outside its control. Any one, or a combination, of these factors could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, pricing and other competitive factors, the ability to attract, train and retain highly qualified employees, the ability to identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions in general, threats of war or terrorism, and the seasonality of the Company's business. Many of these factors have previously been identified in filings or statements made by or on behalf of the Company. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

## PART I

### Item 1. Business

#### Overview

Tractor Supply Company, a Delaware corporation (the "Company"), was founded in 1938 as a catalog mail order tractor parts supplier. In 1982, the Company was purchased by a group of investors, including a member of the Company's current management team who is a significant stockholder. In 1994, the Company made its initial public offering. Today, the Company is the largest operator of retail farm and ranch stores in the United States. The Company is focused on supplying the lifestyle needs of recreational farmers and ranchers and serving the maintenance needs of those who enjoy the rural lifestyle, as well as tradesmen and small businesses. Stores are located in towns outlying major metropolitan markets and in rural communities. The Company offers the following comprehensive selection of merchandise: (1) livestock and pet products, including items necessary for their health, care, growth and containment; (2) maintenance products for agricultural and rural use; (3) hardware and tool products; (4) seasonal products, including lawn and garden power equipment; (5) truck, trailer and towing products; and (6) work clothing for the entire family. The Company's stores typically range in size from 12,500 to 15,500 square feet of inside selling space and utilize approximately as many square feet of outside selling space. The Company operated 433 retail farm stores in 30 states as of December 28, 2002.

Tractor Supply Company has one reportable industry segment — the operation of farm and ranch retail stores.

### Seasonality and Weather

The Company's business is highly seasonal. Historically, the Company's sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the sale of seasonal products. The Company typically operates at a net loss in the first fiscal quarter of each year. Unseasonable weather, excessive rain, drought, and early or late frosts may also affect the Company's sales. The Company believes, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of its stores.

The Company experiences a buildup of inventory and accounts payable during its first fiscal quarter each year for purchases of seasonal product in anticipation of the April through June selling season and again during its third fiscal quarter in anticipation of the October through December selling season.

### Business Strategy

The Company believes its sales and earnings growth has resulted from the focused execution of its business strategy, which includes the following key components:

#### *Market Niche*

The Company has identified a specialized market niche: supplying the lifestyle needs of recreational farmers and ranchers and serving the maintenance needs of those who enjoy the rural lifestyle, as well as tradesmen and small businesses. By focusing its product mix on these core customers, the Company believes it has differentiated itself from general merchandise, home center and other specialty retailers.

#### *Customer Service*

The Company is committed to providing superior customer service and offers its customers a high level of in-store service through motivated, well-trained store employees. The Company believes the ability of its store employees to provide friendly, responsive, technical assistance is valued by its customers and helps to promote strong customer loyalty and repeat shopping. As such, the Company seeks to provide store employees with decision-making authority and training to enable them to meet customer needs.

The Company endeavors to staff its stores with courteous highly motivated employees and devotes considerable resources to training its store employees, often in cooperation with its vendors. The Company's training programs include (i) a full management training program which covers all aspects of the Company's operations, (ii) product knowledge video tapes produced in conjunction with over 100 vendors, (iii) semi-annual retail skills training classes, (iv) semi-annual store managers meetings with vendor product presentations, (v) vendor sponsored in-store training programs and (vi) ongoing product information updates from the Company's management headquarters. The Company seeks to hire and train store employees with farming and ranching backgrounds, with particular emphasis on general maintenance, equine and welding.

The Company's refund policy is "hassle free," if within 30 days of date of purchase and accompanied by a receipt. However, the Company also has a "satisfaction guaranteed" policy, such that if customers are not satisfied, store employees are authorized, at their discretion, to offer to repair or exchange the product, or offer store credits or refunds, irrespective of when the product was purchased. The Company believes that by providing these services it improves customer satisfaction, builds customer loyalty and generates repeat business.

The Company offers a proprietary, third party credit card for individual retail customers. Additionally, in 2002, the Company outsourced its commercial credit program to a third party provider. In addition, the Company accepts Visa, MasterCard and Discover credit cards.

#### *Store Environment*

The Company's stores are designed and managed to make shopping an enjoyable experience and maximize sales and operating efficiencies. Stores utilize several layouts, designed to provide an open environment, optimal product placement, and visual display locations. In addition, these layouts allow for departmental space to be easily reallocated and visual displays to be easily

changed for seasonal products and promotions. Display and product placement information is sent to stores monthly to ensure quality and uniformity among the stores. Informative signs are located throughout each store to assist customers with purchasing decisions and merchandise location. The uniformity of the store layouts and visual displays affords the customer a feeling of familiarity and enhances the shopping experience. To further enhance the shopping experience, all store employees wear highly visible red smocks and nametags and customer service desks and check out counters are conveniently located.

#### *Merchandising*

The Company seeks to offer an extensive, consistent merchandise mix, tailored to some extent to specific regional needs and store size. The Company's full line of product offerings is supported by a strong in-stock inventory position with an average of 12,500 to 14,500 products per store. Stores carry a wide selection of high quality, nationally recognized, name brand merchandise. The Company has established close working relationships with many of its principal vendors to manage stock levels, develop new products, plan promotions and design merchandise displays. The Company intends to continue to expand its vendor partnering strategy to include most of its other key vendors. The Company also markets private-label merchandise under the Tractor Supply Company brand as well as Huskee, Traveller, Producer's Pride, Retriever and Dumor registered trademarks.

The following chart indicates the average percentages of sales represented by each of the Company's major product categories during fiscal 2002 and 2001:

| Product Category       | Percent of Total Sales |      |      |
|------------------------|------------------------|------|------|
|                        | 2002                   | 2001 | 2000 |
| Livestock and Pet      | 31%                    | 30%  | 29%  |
| Seasonal Products      | 22                     | 22   | 22   |
| Hardware and Tools     | 18                     | 17   | 18   |
| Truck/Trailer/Tow/Lube | 12                     | 13   | 13   |
| Clothing and Footwear  | 9                      | 9    | 9    |
| Agriculture Products   | 8                      | 9    | 9    |
|                        | 100%                   | 100% | 100% |

#### *Purchasing and Distribution*

The Company offers an extensive selection of farm and ranch maintenance and other specialty products. The Company's business is not dependent upon any one vendor or particular group of vendors. The Company purchases its products from approximately 870 vendors, the five largest of which accounted for less than 20% of total purchases in fiscal 2002 and no one vendor accounted for more than 10% of purchases during such year. The Company has no material long-term contractual commitments with any of its vendors, has not experienced difficulty in obtaining satisfactory alternative sources of supply for its products and believes that adequate sources of supply exist at substantially similar costs for substantially all of its products. Over 95% of the Company's purchase orders are transmitted through an electronic data interchanges ("EDI") system, and approximately 64% of vendor invoices are transmitted through EDI. The Company is working to expand the number of vendors who transmit invoices to the Company and increase the amount of sales history transmitted from the Company, all through EDI. The Company's supply chain process is centrally managed.

The Company operates a 500,000 square foot distribution center in Pendleton, Indiana, a 144,000 square foot distribution center in Omaha, Nebraska and a 105,000 square foot distribution center in Waco, Texas. The Company also utilizes a 57,000 square foot, strategically located "cross-dock" facility in Rural Hall, North Carolina to support the main distribution centers and transportation system network in servicing certain stores located in the Southeast region of the country. In fiscal 2002, the Company received approximately 65% of its merchandise through these distribution facilities, with the balance delivered directly to the Company's stores. The Company's transportation fleet is managed by UPS Supply Chain Solutions ("UPS"), who supports the Company's distribution centers and the "cross-dock" facility. Additionally, UPS

provides inbound transportation services for over 300 vendors. The Company is continuously evaluating its long-term strategic plan with respect to its distribution centers and transportation operations.

In January 2003, the Company began construction of a new 320,000 square foot distribution center in Waco, Texas. This new distribution center, which will replace the current Waco, Texas distribution center, is expected to provide more efficient distribution of merchandise to Company stores. The Company expects to begin using the new distribution center in August 2003.

#### *Marketing*

The Company utilizes an “everyday low prices” strategy to consistently offer its products at competitive prices. The Company monitors prices at competing stores and adjusts its prices as necessary. The Company believes that by avoiding a “sale” oriented marketing strategy, it is attracting customers on a regular basis rather than only in response to sales.

To generate store traffic and position itself as a destination store, the Company promotes broad selections of merchandise, primarily advertised at the regular everyday low price, with color circulars distributed by direct mail and as newspaper inserts. The Company also runs periodic special events promoted through local flyers, circulars and radio advertising. The Company enhances its print marketing and advertising programs through the expanded use of radio and national television.

The Company’s vendors realize the value of the Company being a destination store. Due to the relatively small size of its stores, increased traffic in the store ensures increased exposure to most products. As such, the Company’s vendors are committed to helping the Company promote its brand and position itself as a destination store. The Company’s marketing efforts are supported through vendor funding which enables the Company to expand its marketing efforts and increase customer awareness.

#### *Competition*

The Company operates in a highly competitive market. The principal competitive factors include location of stores, price and quality of merchandise, in-stock consistency, merchandise assortment and presentation, and customer service. The Company believes it has successfully differentiated itself from general merchandise, home center (i.e. “big box”) retailers and other specialty and discount retailers by focusing on its specialized market niche (i.e. the rural lifestyle and maintenance needs of recreational farmers and ranchers, as well as tradesmen and small businesses). However, the Company does face select competition from these entities, as well as competition from independently owned retail farm stores, several privately-held regional farm store chains and farm cooperatives. Some of these competitors are units of large national or regional chains that have substantially greater financial and other resources than the Company.

#### *Management and Employees*

As of December 28, 2002, the Company employed approximately 3,500 full-time and approximately 2,500 part-time employees. The Company also employs additional part-time employees during peak periods. As of such date, approximately 40 employees of the Company’s Omaha, Nebraska distribution center were covered by a collective bargaining agreement. This collective bargaining agreement expires in July 2005.

Management believes its district managers, store managers and other distribution and support personnel have contributed significantly to the Company’s performance. Management encourages the participation of all employees in decision-making, regularly solicits input and suggestions from employees and responds to the suggestions expressed by employees.

All employees participate in one of various incentive programs, which provide the opportunity to receive additional compensation based upon the Company’s success and profitability. The Company also provides employees the opportunity to participate in an employee stock purchase plan and a 401(k) retirement plan (the Company participates in the 401(k) plan through a cash

match). Additionally, the Company shares in the cost of health insurance provided to its employees and employees receive a discount on merchandise purchased at the Company's stores.

Management also encourages a "promote from within" environment when internal resources permit. Two of the five members of the Company's senior management, most of the Company's district managers and a significant portion of the Company's store managers were promoted to their positions from within the Company. All executive officers have at least 16 years of business experience and one executive officer has over 21 years of experience with the Company. District managers and store managers have an average length of service with the Company of approximately 4.2 years and 3.9 years, respectively. (This tenure reflects the addition of 113 new stores during fiscal 2002.) Management believes internal promotions coupled with the hiring of individuals with previous retail experience will provide the management structure necessary to support expected store growth. Management believes it has satisfactory relationships with its employees.

#### *Management Information and Control Systems*

The Company has invested considerable resources in sophisticated management information and control systems to ensure superior customer service, support the purchase and distribution of merchandise and improve operating efficiencies. The management information and control systems include a point-of-sale system (with communications via a frame relay network to the Company's primary systems), a supply chain management and replenishment system, a vendor purchase order control system and a merchandise presentation system. These systems are fully integrated and track merchandise from order through sale. All operational data from these systems is also fully integrated with the Company's financial systems.

The Company continues to evaluate and improve the functionality of its systems to maximize their effectiveness. Such efforts will include an ongoing evaluation of the optimal software configuration (including system enhancements and upgrades) as well as the adequacy of the underlying hardware components. These efforts are directed toward constantly improving the overall business processes and achieving the most efficient and effective use of the system to manage the Company's operations.

#### Growth Strategy

The Company's current and long-term growth strategy is built on a combination of (1) expanded geographic market presence, achieved through the opening of new retail stores at an annual growth rate of 8% to 10% and (2) enhanced financial performance through same-store sales increases, achieved through aggressive merchandising programs with an "everyday low prices" philosophy, supported by strong customer service.

The Company has experienced considerable growth in recent years, including the addition of 35 stores in fiscal 2000, 18 in fiscal 2001 and 113 in fiscal 2002. This recent growth has increased the Company's market presence in the Southwest, primarily in Texas, the Southeast, primarily in Tennessee, Kentucky, North Carolina and Florida, in the central northern part of the United States, primarily in Ohio and Michigan and in the Northeast, primarily in Pennsylvania and New York. The Company operated 433 stores in 30 states as of December 28, 2002 and has a base plan to open 30 to 35 stores in fiscal 2003. The Company plans to open 40 to 45 new stores in fiscal 2004 and additional stores thereafter. The Company believes it has developed a sophisticated proven method for selecting store sites and has identified over 600 potential additional markets for new stores in the United States. In addition, the Company continues to identify opportunities to relocate existing stores to ensure optimal locations to promote growth.

During the first quarter of 2002, the Company purchased real property for 24 store locations, lease rights for 76 store locations and fixtures from 100 stores from Quality Stores, Inc. (which was in bankruptcy liquidation). During fiscal 2002, 87 stores were opened as new Tractor Supply stores and nine Tractor Supply stores were relocated to the acquired locations. The Company has also decided to open one additional store (previously held for sale) and hold the remaining locations for sale. With this transaction, the Company has achieved store growth in fiscal 2002 that is approximately four times the historical unit store growth plan for a single year. The Company avoided the potential pitfalls of acquiring redundant headquarters and information systems and did not acquire any inventory, thus avoiding the challenges of integrating similar products with dissimilar packaging into its existing stock, as well as



avoiding the challenge of liquidating other products which conflict with the Company's existing product offerings. Rather, the Company selected only the geographic markets that it believed had the greatest potential.

This aggressive expansion occurred in a more compressed timeframe than the Company's historical store growth, including the opening of 90 stores in the second quarter of fiscal 2002. To achieve this level of growth, the Company devoted substantial resources toward this endeavor and incurred considerable cost to ensure the stores were opened in accordance with the planned strategy. The transition of these locations to Tractor Supply Company stores was completed during the third fiscal quarter of 2002.

The Company's strategy is generally to lease its new stores. At December 28, 2002, 358 of the Company's 433 stores are leased. Assuming that new stores are leased, the estimated cash required to open a new store is approximately \$800,000 to \$1,000,000, the majority of which is for initial acquisition of inventory and capital expenditures (principally leasehold improvements and fixtures and equipment) and the balance of which is for pre-opening expenses.

The Company plans to relocate a total of 10 to 12 stores in fiscal 2003 and an average of three or four additional stores each year over the next several years. Store relocations are typically undertaken to move small, older stores to full-size formats in prime retail areas. The cash required to complete a store relocation typically ranges from \$150,000 to \$400,000 depending on whether the Company is responsible for any renovation or remodeling costs.

The Company plans to extensively remodel 10 of its stronger performing stores in 2003 and each year thereafter over the next several years. The estimated cash required to complete a major remodeling typically ranges from \$100,000 to \$450,000.

As a result of the rapid expansion discussed above, the Company has gained considerable expertise in the opening and relocating of its stores. The average store opening timeframe has been reduced from nine weeks in fiscal 1998 to six weeks in fiscal 2003 with additional timesavings anticipated. The Company has also improved its store set-up process through the utilization of third parties for key functions such as fixture procurement, architectural assistance and procurement of key vendor support (brochures, product training booklets, etc.) and supplies. The use of third parties to support store openings and relocations allows management to focus on its primary responsibility of running the business.

### Additional Information

The Company files reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and other reports from time to time. The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, 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. The Company is an electronic filer and the SEC maintains an Internet site at [www.sec.gov](http://www.sec.gov) that contains the reports, proxy and information statements, and other information filed electronically.

The Company makes available free of charge through its Internet website, [www.myTSCstore.com](http://www.myTSCstore.com), its 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.

The Company maintains a code of ethics that is applicable to all employees, including the Company's Chief Executive Officer and Chief Financial Officer and Controller. This code, which requires continued observance of high ethical standards such as honesty, integrity and compliance with the law in the conduct of the Company's business, is available for public access on the Company's Internet website ([www.myTSCstore.com](http://www.myTSCstore.com)).

**Item 2. Properties**

At December 28, 2002, the Company operated 433 stores in 30 states. The Company leases its four distribution facilities and its management headquarters, and over 75% of its stores. The store leases typically have initial terms of between 10 and 15 years, with one to three renewal periods of five years each, exercisable at the Company's option. None of the store leases is individually material to the Company's operations. The leases at its Pendleton, Indiana; Omaha, Nebraska; Waco, Texas and Rural Hall, North Carolina distribution facilities expire in 2015, 2004, 2003 and 2004 respectively, and the lease for its management headquarters expires in 2007. The Company is constructing a new, larger facility in Waco, Texas, with an expected opening in August 2003, which will provide more efficient distribution of merchandise to Company stores. Two of the Company's stores are leased from affiliated parties. See Item 13. "Certain Relationships and Related Transactions."

As of December 28, 2002, the Company operated 433 stores in 30 states as follows:

| State          | Number<br>of Stores | State         | Number<br>of Stores |
|----------------|---------------------|---------------|---------------------|
| Texas          | 64                  | Missouri      | 7                   |
| Ohio           | 59                  | North Dakota  | 7                   |
| Michigan       | 43                  | Nebraska      | 7                   |
| Tennessee      | 32                  | Arkansas      | 6                   |
| Indiana        | 30                  | Oklahoma      | 6                   |
| Florida        | 21                  | Minnesota     | 5                   |
| Pennsylvania   | 20                  | West Virginia | 5                   |
| North Carolina | 19                  | Alabama       | 4                   |
| Kentucky       | 17                  | Georgia       | 4                   |
| Virginia       | 16                  | South Dakota  | 4                   |
| New York       | 15                  | Maryland      | 3                   |
| Illinois       | 10                  | Delaware      | 1                   |
| Iowa           | 9                   | Mississippi   | 1                   |
| Kansas         | 8                   | Montana       | 1                   |
| South Carolina | 8                   | Wisconsin     | 1                   |

**Item 3. Legal Proceedings**

The Company is involved in various litigation matters involving routine claims and lawsuits arising in the ordinary course of its business. The Company does not believe that such claims and lawsuits, individually or in the aggregate, will have a material adverse effect on the Company's business. Compliance with federal, state, local and foreign laws and regulations pertaining to the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had, and is not anticipated to have, a material effect upon the capital expenditures, earnings or competitive position of the Company.

**Item 4. Submission of Matters to a Vote of Security-Holders**

No matter was submitted to a vote of the Company's security-holders during the fourth quarter of the Company's fiscal year ended December 28, 2002.

## Executive Officers of the Registrant

Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an unnumbered item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 17, 2003.

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 |
|-------------------------|-------------------------------------------------------------|-----|
| Joseph H. Scarlett, Jr. | Chairman of the Board, Chief Executive Officer and Director | 60  |
| James F. Wright         | President and Chief Operating Officer and Director          | 53  |
| Gerald W. Brase         | Senior Vice President-Merchandising                         | 49  |
| Calvin B. Massmann      | Senior Vice President-Chief Financial Officer and Treasurer | 59  |
| Stanley L. Ruta         | Senior Vice President-Store Operations                      | 51  |

Joseph H. Scarlett, Jr. has served as Chairman of the Board and Chief Executive Officer of the Company since 1993, having previously served as President and Chief Operating Officer of the Company from 1987 to 1993. Mr. Scarlett has served as a director of the Company since 1982.

James F. Wright has served as President and Chief Operating Officer of the Company since October 2000. Mr. Wright previously served as President and Chief Executive Officer of Tire Kingdom, a tire and automotive services retailer, from May 1997 to June 2000. Mr. Wright has served as a director of the Company since 2002.

Gerald W. Brase has served as Senior Vice President-Merchandising of the Company since September 1997.

Calvin B. Massmann has served as Senior Vice President-Chief Financial Officer and Treasurer since January 2000. Mr. Massmann previously served as an independent business consultant during 1998 and 1999.

Stanley L. Ruta has served as Senior Vice President-Store Operations since June 2000, after having served as a Vice President-Store Operations of the Company since 1994.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock began trading on The Nasdaq National Market on February 18, 1994 under the symbol "TSCO".

The table below sets forth the high and low sales prices of the Company's Common Stock as reported by The Nasdaq National Market (as adjusted for a 2:1 stock split effective August 2, 2002) for each fiscal quarter of the periods indicated:

|                | Price Range |         |             |        |
|----------------|-------------|---------|-------------|--------|
|                | Fiscal 2002 |         | Fiscal 2001 |        |
|                | High        | Low     | High        | Low    |
| First Quarter  | \$23.30     | \$16.35 | \$ 7.47     | \$4.25 |
| Second Quarter | \$36.62     | \$22.80 | \$ 8.23     | \$6.75 |
| Third Quarter  | \$36.10     | \$25.39 | \$12.24     | \$7.40 |
| Fourth Quarter | \$45.50     | \$28.10 | \$17.49     | \$8.73 |

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As of January 31, 2003, the approximate number of record holders of the Company's Common Stock was 100 (excluding individual participants in nominee security position listings) and the estimated number of beneficial holders of the Company's Common Stock was 12,000.

The Company has not declared any cash dividends on its Common Stock during the two most recent fiscal years. The Company currently intends to retain all earnings for future operation and expansion of its business and, therefore, does not anticipate that any dividends will be declared on the Common Stock in the foreseeable future. Any future declaration of dividends will be subject to the discretion of the Company's Board of Directors and subject to the Company's results of operations, financial condition, cash requirements and other factors deemed relevant by the Board of Directors. The Company is also restricted from paying cash dividends by the terms of its various financing agreements.

### **Item 6. Selected Financial Data**

The information set forth under the caption "Five Year Selected Financial and Operating Highlights" on page 6 of the Company's Annual Report to Stockholders for the fiscal year ended December 28, 2002 is incorporated herein by reference.

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

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 7 through 16 of the Company's Annual Report to Stockholders for the fiscal year ended December 28, 2002 is incorporated herein by reference.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The information set forth under the caption "Quantitative and Qualitative Disclosures About Market Risk" of the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 15 of the Company's Annual Report to Stockholders for the fiscal year ended December 28, 2002 is incorporated herein by reference.

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

The information set forth under the captions "Report of Independent Auditors", "Consolidated Statements of Income", "Consolidated Balance Sheets", "Consolidated Statement of Stockholders' Equity", "Consolidated Statements of Cash Flows", and "Notes to Consolidated Financial Statements" on pages 17 through 33 of the Company's Annual Report to Stockholders for the fiscal year ended December 28, 2002 is incorporated herein by reference.

The Company's unaudited operating results for each fiscal quarter within the two most recent fiscal years, as set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 9 of the Company's Annual Report to Stockholders for the fiscal year ended December 28, 2002, is incorporated herein by reference.

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

None

## **PART III**

### **Item 10. Directors and Executive Officers of the Registrant**

The information set forth under the captions "Information Regarding Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" on pages 1 through 4 and 18, respectively, of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on April 17, 2003 is incorporated herein by reference.

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

## Item 11. Executive Compensation

The information set forth under the captions “Board of Directors and Committees of the Board — Compensation of Directors”, “Compensation Committee Interlocks and Insider Participation”, “Executive Compensation”, “Summary Compensation Table”, “Option Grants in Last Fiscal Year”, “Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values”, “Compensation Committee’s Report on Executive Compensation”, and “Performance Graph” on pages 5 through 16 of the Company’s Proxy Statement for its Annual Meeting of Stockholders to be held on April 17, 2003 is incorporated herein by reference.

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

The information set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” on pages 18 and 19 of the Company’s Proxy Statement for its Annual Meeting of Stockholders to be held on April 17, 2003 is incorporated herein by reference.

Following is a summary of the Company’s equity compensation plans as of December 28, 2002, under which equity securities are authorized for issuance, aggregated as follows:

| Plan Category                                                           | Number of securities to be issued upon exercise of outstanding options, warrants, and rights | Weighted Average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance |
|-------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------|
| Equity compensation plans approved by security holders                  |                                                                                              |                                                                             |                                                              |
| 2000 Stock Incentive Plan                                               | 848,200                                                                                      | \$12.41                                                                     | 1,151,800                                                    |
| Employee Stock Purchase Plan <sup>1</sup>                               | —                                                                                            | —                                                                           | 1,760,329                                                    |
| Equity compensation plans not approved by security holders <sup>2</sup> | 1,422,117                                                                                    | \$ 9.50                                                                     | 20,602                                                       |
| Total                                                                   | 2,270,317                                                                                    | \$10.59                                                                     | 2,932,731                                                    |

<sup>1</sup> Represents shares available as of January 1, 2003.

<sup>2</sup> Consists of the 1994 Stock Option Plan, which was adopted by the Company prior to its initial public offering.

The information set forth under the caption “Stock-Based Compensation Plans” in the “Notes to Consolidated Financial Statements” on pages 31 and 32 of the Company’s Annual Report to Stockholders for the fiscal year ended December 28, 2002 (incorporated herein by reference), provides further information with respect to the material features of each plan.

## Item 13. Certain Relationships and Related Transactions

The information set forth under the caption “Related-Party Transactions with Tractor Supply Company” on page 7 of the Company’s Proxy Statement for its Annual Meeting of Stockholders to be held on April 17, 2003 is incorporated herein by reference.

**Item 14. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

Within 90 days prior to the date of the filing of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 10a-14 and 15d-14 under the Securities Exchange Act of 1934) are effective for gathering, analyzing and disclosing the information the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

*Changes in Internal Controls*

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation referred to above.

**PART IV**

**Item 15. Exhibits, Financial Statements and Reports on Form 8-K**

(a) (1) Financial Statements

The following financial statements and related notes of the Company contained on pages 17 through 33 of the Company's Annual Report to Stockholders for the fiscal year ended December 28, 2002 are incorporated herein by reference:

Report of Independent Auditors

Consolidated Statements of Income — Fiscal Years Ended December 28, 2002, December 29, 2001 and December 30, 2000

Consolidated Balance Sheets — December 28, 2002 and December 29, 2001

Consolidated Statement of Stockholders' Equity — December 28, 2002, December 29, 2001 and December 30, 2000

Consolidated Statements of Cash Flows — Fiscal Years Ended December 28, 2002, December 29, 2001 and December 30, 2000

Notes to Consolidated Financial Statements

(a) (2) Financial Statement Schedules

None

Financial statement schedules have been omitted because they are not applicable or because the required information is otherwise furnished.

(a) (3) Exhibits

The exhibits listed in the Index to Exhibits, which appears on pages 18 through 27 of this Form 10-K, are incorporated herein by reference or filed as part of this Form 10-K.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Registrant during the last quarter of the fiscal year ended December 28, 2002.

(d) Report of PricewaterhouseCoopers LLP, Independent Accountants, on the consolidated financial statements of the Company as of December 30, 2000 and for the year then ended.

**REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors and  
Stockholders of Tractor Supply Company

In our opinion, the statements of income, of changes in stockholders' equity and of cash flows for the year ended December 30, 2000 present fairly, in all material respects, the results of operations of Tractor Supply Company and its cash flows for the year ended December 30, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion. We have not audited the financial statements of Tractor Supply Company for any period subsequent to December 30, 2000.

/s/ PricewaterhouseCoopers LLP

Nashville, Tennessee  
January 24, 2001

## SIGNATURES

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

### TRACTOR SUPPLY COMPANY

Date: March 14, 2003

By: /s/ Calvin B. Massmann

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Calvin B. Massmann  
Senior Vice President — Chief Financial  
Officer and Treasurer

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

| Signature                   | Title                                                                                             | Date           |
|-----------------------------|---------------------------------------------------------------------------------------------------|----------------|
| /s/ Joseph H. Scarlett, Jr. | Chairman of the Board,<br>Chief Executive Officer and Director<br>(Principal Executive Officer)   | March 14, 2003 |
| Joseph H. Scarlett, Jr.     |                                                                                                   |                |
| /s/ Calvin B. Massmann      | Senior Vice President — Chief Financial<br>Officer and Treasurer<br>(Principal Financial Officer) | March 14, 2003 |
| Calvin B. Massmann          |                                                                                                   |                |
| /s/ James F. Wright         | President — Chief Operating Officer<br>and Director                                               | March 14, 2003 |
| James F. Wright             |                                                                                                   |                |
| /s/ Cynthia T. Jamison      | Director                                                                                          | March 14, 2003 |
| Cynthia T. Jamison          |                                                                                                   |                |
| /s/ Thomas O. Flood         | Director                                                                                          | March 14, 2003 |
| Thomas O. Flood             |                                                                                                   |                |
| /s/ Joseph D. Maxwell       | Director                                                                                          | March 14, 2003 |
| Joseph D. Maxwell           |                                                                                                   |                |
| /s/ S.P. Braud              | Director                                                                                          | March 14, 2003 |
| S.P. Braud                  |                                                                                                   |                |
| /s/ Joseph M. Rodgers       | Director                                                                                          | March 14, 2003 |
| Joseph M. Rodgers           |                                                                                                   |                |
| /s/Gerard E. Jones          | Director                                                                                          | March 14, 2003 |
| Gerard E. Jones             |                                                                                                   |                |
| /s/ Sam K. Reed             | Director                                                                                          | March 14, 2003 |
| Sam K. Reed                 |                                                                                                   |                |



## CERTIFICATIONS

I, Joseph H. Scarlett, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Tractor Supply Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

/s/ Joseph H. Scarlett, Jr.

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Joseph H. Scarlett, Jr.  
Chairman of the Board  
Chief Executive Officer and Director

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I, Calvin B. Massmann, certify that:

1. I have reviewed this annual report on Form 10-K of Tractor Supply Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

/s/ Calvin B. Massmann

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Calvin B. Massmann  
Chief Financial Officer

## EXHIBITS INDEX

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                                       | Page Number<br>by Sequential<br>Numbering System |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| 3.1               | Restated Certificate of Incorporation, as amended, of the Company, filed with the Delaware Secretary of State on February 14, 1994 (filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-8, Registration No. 333-102768, filed with the Commission on January 28, 2003, and incorporated herein by reference).                                   |                                                  |
| 3.2               | Certificate of Amendment of the Restated Certificate of Incorporation, as amended, of the Company, filed with the Delaware Secretary of State on April 28, 1995 1994 (filed as Exhibit 4.2 to Registrant's Registration Statement on Form S-8, Registration No. 333-102768, filed with the Commission on January 28, 2003, and incorporated herein by reference). |                                                  |
| 3.3               | Certificate of Amendment of the Restated Certificate of Incorporation, as amended, of the Company, filed with the Delaware Secretary of State on May 13, 1994 (filed as Exhibit 4.3 to Registrant's Registration Statement on Form S-8, Registration No. 333-102768, filed with the Commission on January 28, 2003, and incorporated herein by reference).        |                                                  |
| 3.4               | Amended and Restated By-laws of the Company as currently in effect (filed as Exhibit 3.7 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                                    |                                                  |
| 4.1               | Form of Specimen Certificate representing the Company's Common Stock, par value \$.008 per share (filed as Exhibit 4.2 to Amendment No. 1 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on January 31, 1994, and incorporated herein by reference).                                                    |                                                  |
| 10.1              | Indenture of Lease, dated as of January 1, 1986, between the Company and Joseph H. Scarlett, Jr. and Dorothy F. Scarlett (relating to Omaha, Nebraska store) (filed as Exhibit 10.14 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).        |                                                  |
| 10.2              | Indenture of Lease, dated as of January 1, 1986, between the Company and Joseph D. Maxwell and Juliann K. Maxwell (relating to Nashville, Tennessee store) (filed as Exhibit 10.18 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).          |                                                  |
| 10.3              | Tractor Supply Company 1994 Stock Option Plan (filed as Exhibit 10.28 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                                                       |                                                  |
| 10.4              | Amendment to the Tractor Supply Company 1994 Stock Option Plan (filed as Exhibit 4.6 to Registrant's Registration Statement on Form S-8, Registration No. 333-10699, filed with the Commission on June 14, 1999, and incorporated herein by reference).                                                                                                           |                                                  |
| 10.5              | Certificate of Insurance relating to the Medical Expense Reimbursement Plan of the Company (filed as Exhibit 10.33 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                          |                                                  |

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Page Number<br>by Sequential<br>Numbering System |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| 10.6              | Summary Plan Description of the Executive Life Insurance Plan of the Company (filed as Exhibit 10.34 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on December 17, 1993, and incorporated herein by reference).                                                                                                                                                                                                                                                            |                                                  |
| 10.7              | Tractor Supply Company 1996 Associate Stock Purchase Plan (filed as Exhibit 4.4 to Registrant's Registration Statement on Form S-8, Registration No. 333-10699, filed with the Commission on August 23, 1996, and incorporated herein by reference).                                                                                                                                                                                                                                                                                  |                                                  |
| 10.8              | Indemnification Agreement, dated January 27, 1994, between the Company and Thomas O. Flood (filed as Exhibit 10.38 to Amendment No. 1 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed with the Commission on January 31, 1994, and incorporated herein by reference).                                                                                                                                                                                                                            |                                                  |
| 10.9              | Tractor Supply Company Restated 401(k) Retirement Plan (filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-3, Registration No. 333-35317, filed with the Commission on September 10, 1997, and incorporated herein by reference).                                                                                                                                                                                                                                                                                  |                                                  |
| 10.10             | Trust Agreement (filed as Exhibit 4.2 to Registrant's Registration Statement on Form S-3, Registration No. 333-35317, filed with the Commission on September 10, 1997, and incorporated herein by reference).                                                                                                                                                                                                                                                                                                                         |                                                  |
| 10.11             | Split-Dollar Agreement, dated January 27, 1998, between the Company and Joseph H. Scarlett, Jr., Tara Anne Scarlett and Andrew Sinclair Scarlett (filed as Exhibit 10.45 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 17, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                                                               |                                                  |
| 10.12             | Split-Dollar Agreement, dated January 2, 1998, between the Company and Thomas O. Flood and Terry Mainiero, as Trustee of the Flood 1997 Irrevocable Trust under Agreement dated November 10, 1997, (filed as Exhibit 10.46 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 17, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                             |                                                  |
| 10.13             | Term Note, dated as of September 2, 1999, issued by the Company to SunTrust Bank, Nashville, N.A., a national banking association, in the aggregate amount of \$15 million (filed as Exhibit 10.47 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 29, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                                |                                                  |
| 10.14             | Noncompetition Agreement, dated as of August 31, 1999, between the Company and Thomas O. Flood (filed as Exhibit 10.48 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on October 29, 1999, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                                                                                                                                                            |                                                  |
| 10.15             | Third Amendment to Revolving Credit Agreement, dated as of November 15, 1999 among the Company and SunTrust Bank Nashville, N.A. (replaced Bank Boston, N.A. as agent), as agent and for itself, AmSouth Bank (successor to First America National Bank), an national banking association, and Bank of America, a national banking association (filed as Exhibit 10.43 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 24, 2000, Commission File No. 000-23314, and incorporated herein by reference). |                                                  |

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                                     | Page Number<br>by Sequential<br>Numbering System |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| 10.16             | Second Amendment to the Tractor Supply Company 1994 Stock Option Plan (filed as Exhibit 10.44 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 24, 2000, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                    |                                                  |
| 10.17             | Agreement, effective August 1, 1999 between the Company and General Drivers & Helpers Union, Local #554 (filed as Exhibit 10.45 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 24, 2000, Commission No. 000-23314, and incorporated herein by reference).                                                                       |                                                  |
| 10.18             | Tractor Supply Company 2000 Stock Incentive Plan (filed as Exhibit 4.5 to Registrant's Registration Statement on Form S-8, Registration No. 333-102768, filed with the Commission on January 28, 2003, and incorporated herein by reference).                                                                                                                   |                                                  |
| 10.19             | Loan Agreement, dated as of August 10, 2000 between the Company and Bank of America, N.A. (filed as Exhibit 10.47 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 14, 2000, Commission File No. 000-23314, and incorporated herein by reference).                                                                          |                                                  |
| 10.20             | Term Note, dated as of August 10, 2000 issued by the Company to Bank of America, N.A., in the aggregate amount of \$20 million (filed as Exhibit 10.48 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 14, 2000, Commission File No. 000-23314, and incorporated herein by reference).                                     |                                                  |
| 10.21             | Revolving Credit Agreement, dated as of November 3, 2000 by and among Tractor Supply Company, the banks party thereto and Bank of America, N.A., as Administrative Agent (filed as Exhibit 10.46 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference). |                                                  |
| 10.22             | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and Bank of America, N.A. (filed as Exhibit 10.47 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                    |                                                  |
| 10.23             | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and Firststar Bank, N. A. (filed as Exhibit 10.48 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                    |                                                  |
| 10.24             | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and SouthTrust Bank (filed as Exhibit 10.49 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                          |                                                  |
| 10.25             | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and AmSouth Bank (filed as Exhibit 10.50 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                             |                                                  |

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                                     | Page Number<br>by Sequential<br>Numbering System |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| 10.26             | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and SunTrust Bank, Nashville, N.A. (filed as Exhibit 10.51 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                           |                                                  |
| 10.27             | Revolving Note, dated as of November 3, 2000 between Tractor Supply Company and Compass Bank (filed as Exhibit 10.52 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                             |                                                  |
| 10.28             | Revolving Note, dated as of December 30, 2000 between Tractor Supply Company and Fifth Third Bank (filed as Exhibit 10.53 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                        |                                                  |
| 10.29             | Amended and Restated Loan Agreement, dated as of November 3, 2000, between the Company and SunTrust Bank, Nashville, N.A. (filed as Exhibit 10.54 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                |                                                  |
| 10.30             | Amended and Restated Term Note, dated as of November 3, 2000, issued by the Company to SunTrust Bank, Nashville, N.A. in the aggregate amount of \$9,999,945 (filed as Exhibit 10.55 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).             |                                                  |
| 10.31             | First Amendment to Lease Agreement, dated as of December 18, 2000, between Tractor Supply Company and GOF Partners (filed as Exhibit 10.56 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                       |                                                  |
| 10.32             | Second Amendment to Tractor Supply Company Restated 401(k) Retirement Plan (filed as Exhibit 10.57 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference).                                                                                               |                                                  |
| 10.33             | Transportation Management Services Agreement between UPS Logistics Group, Inc. and Tractor Supply Company dated May 10, 2001 (filed as Exhibit 10.58 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 14, 2001 Commission File No. 000-23314, and incorporated herein by reference).                                          |                                                  |
| 10.34             | Letter, dated October 2, 2001, from Bank of America, N.A., as Administrative Agent, approving a one-year extension of the Revolving Credit Agreement to November 2, 2004 (filed as Exhibit 10.57 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference). |                                                  |
| 10.35             | Tractor Supply Company Executive Deferred Compensation Plan, dated November 11, 2001 (filed as Exhibit 10.58 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 13, 2002, Commission File No. 000-23314, and incorporated herein by reference).                                                                                    |                                                  |

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                                                                               | Page Number<br>by Sequential<br>Numbering System |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| 10.36             | Letter Agreement between Tractor Supply Company and the Joint Venture formed by Great American Group, Gordon Brothers Retail Partners, LLC and DJM Asset Management, dated December 14, 2001 (filed as Exhibit 10.59 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 13, 2002, Commission File No. 000-23314, and incorporated herein by reference).                      |                                                  |
| 10.37             | Amended Letter Agreement between the members of the joint venture comprised of Tractor Supply Company, Great American Group, Gordon Brothers Retail Partners, LLC and DJM Asset Management, dated January 8, 2002 (filed as Exhibit 10.60 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 13, 2002, Commission File No. 000-23314, and incorporated herein by reference). |                                                  |
| 10.38             | Agency Agreement between Quality Stores, Inc. and Tractor Supply Company et al., dated December 31, 2001 (filed as Exhibit 10.61 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 13, 2002, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                          |                                                  |
| 10.39             | Amendment No. 1 to the Agency Agreement between Quality Stores, Inc. and Tractor Supply Company et al., dated January 4, 2002 (filed as Exhibit 10.62 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 13, 2002, Commission File No. 000-23314, and incorporated herein by reference).                                                                                     |                                                  |
| 10.40             | Amendment No. 2 to the Agency Agreement between Quality Stores, Inc. and Tractor Supply Company et al., dated January 30, 2002 (filed as Exhibit 10.63 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 13, 2002, Commission File No. 000-23314, and incorporated herein by reference).                                                                                    |                                                  |
| 10.41             | Amendment No. 3 to the Agency Agreement between Quality Stores, Inc. and Tractor Supply company et al., dated January 31, 2002 (filed as Exhibit 10.64 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 13, 2002, Commission File No. 000-23314, and incorporated herein by reference).                                                                                    |                                                  |
| 10.42             | Revolving Credit Agreement, dated as of August 15, 2002 by and among Tractor Supply Company, the banks party thereto and Bank of America, N.A., as Administrative Agent (filed as Exhibit 10.65 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).                                      |                                                  |
| 10.43             | Revolving Note, dated as of August 15, 2002 between Tractor Supply Company and Bank of America, N.A. (filed as Exhibit 10.66 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                         |                                                  |
| 10.44             | Revolving Note, dated as of August 15, 2002 between Tractor Supply Company and U.S. Bank, N. A. (filed as Exhibit 10.67 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                              |                                                  |
| 10.45             | Revolving Note, dated as of August 15, 2002 between Tractor Supply Company and SouthTrust Bank (filed as Exhibit 10.68 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).                                                                                                               |                                                  |

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                | Page Number<br>by Sequential<br>Numbering System |
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| 10.46             | Revolving Note, dated as of August 15, 2002 between Tractor Supply Company and AmSouth Bank (filed as Exhibit 10.69 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).                   |                                                  |
| 10.47             | Revolving Note, dated as of August 15, 2002 between Tractor Supply Company and SunTrust Bank, Nashville, N.A. (filed as Exhibit 10.70 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference). |                                                  |
| 10.48             | Revolving Note, dated as of August 15, 2002 between Tractor Supply Company and Compass Bank (filed as Exhibit 10.71 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).                   |                                                  |
| 10.49             | Revolving Note, dated as of August 15, 2002 between Tractor Supply Company and Fifth Third Bank (filed as Exhibit 10.72 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).               |                                                  |
| 10.50             | Revolving Note, dated as of August 15, 2002 between Tractor Supply Company and Branch Banking & Trust Company (filed as Exhibit 10.73 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference). |                                                  |
| 10.51             | Revolving Note, dated as of August 15, 2002 between Tractor Supply Company and Regions Bank (filed as Exhibit 10.74 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).                   |                                                  |
| 10.52             | Revolving Note, dated as of August 15, 2002 between Tractor Supply Company and National City Bank (filed as Exhibit 10.75 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).             |                                                  |
| 10.53             | Change in Control Agreement, dated August 1, 2002, between Tractor Supply Company and Joseph H. Scarlett, Jr. (filed as Exhibit 10.76 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference). |                                                  |
| 10.54             | Change in Control Agreement, dated August 1, 2002, between Tractor Supply Company and James F. Wright (filed as Exhibit 10.77 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).         |                                                  |
| 10.55             | Change in Control Agreement, dated August 1, 2002, between Tractor Supply Company and Gerald W. Brase (filed as Exhibit 10.78 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).         |                                                  |



| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                           | Page Number<br>by Sequential<br>Numbering System |
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| 10.56             | Change in Control Agreement, dated August 1, 2002, between Tractor Supply Company and Calvin B. Massmann (filed as Exhibit 10.79 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference). |                                                  |
| 10.57             | Change in Control Agreement, dated August 1, 2002, between Tractor Supply Company and Stanley L. Ruta (filed as Exhibit 10.80 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 12, 2002, Commission File No. 000-23314, and incorporated herein by reference).    |                                                  |
| °10.58            | Tractor Supply Company Executive Bonus Plan.                                                                                                                                                                                                                                                          |                                                  |
| °13.1             | Annual Report to Stockholders for the fiscal year ended December 28, 2002.                                                                                                                                                                                                                            |                                                  |
| °23.1             | Consent of Ernst & Young LLP.                                                                                                                                                                                                                                                                         |                                                  |
| °23.2             | Consent of PricewaterhouseCoopers LLP.                                                                                                                                                                                                                                                                |                                                  |
| °23.3             | Consent of PricewaterhouseCoopers LLP.                                                                                                                                                                                                                                                                |                                                  |
| °23.4             | Consent of PricewaterhouseCoopers LLP.                                                                                                                                                                                                                                                                |                                                  |

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° Filed herewith.



**Tractor Supply Company****Fiscal 2002****Executive and Vice President Bonus Plan**

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|                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Purpose</b>     | The Tractor Supply Company and its subsidiaries, hereinafter referred to as “the Company”, Executive and Vice President Bonus Plan is established to provide a financial incentive and reward for attaining the Company’s “Net Income” objectives.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Eligibility</b> | <p>The plan established a participating group of employees comprising Executives and Vice Presidents of the Company as follows:</p> <ul style="list-style-type: none"><li>Chief Executive Officer</li><li>Chief Operating Officer</li><li>Chief Financial Officer</li><li>Senior Vice Presidents</li><li>Vice Presidents (excluding Vice Presidents of Store Operations)</li></ul> <p>Except as provided below, participants in the plan shall only be entitled to bonuses to be paid with respect to a fiscal year if they are employed by the Company on the determination date (hereinafter defined) for such fiscal year. Participation for eligible associates in position for less than a full calendar year will be on a pro-rata basis, which will only be computed on full fiscal months of service. Participants who are not employed by the Company on such determination date because of death, disability, retirement, or involuntary termination (other than for cause) will be entitled to a payment equal to the on plan bonus amount with respect to such fiscal year on a pro-rata basis, which will only be computed on full fiscal months of service, if all other plan conditions are met.</p> <p>The Company reserves the right, subject to review by the Senior Human Resources Executive, to withhold all or a portion of bonus payments when an individual’s performance rating needs improvement or is below standard.</p> |
| <b>Calculation</b> | The Corporate Controller shall have the responsibility of calculating each bonus payment. Percentages used in the calculation will not be rounded up or down. The process and calculation will be reviewed by the Company’s independent public accountants or other independent party selected by the Compensation Committee of the Board of Directors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

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**Executive and Vice President Bonus Plan** , continued

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**Determination date** Bonus amounts shall be determined no later than March 15 following the Company’s fiscal year end (the “Determination Date”). Bonus amounts shall be paid to the Executive and Vice President group as soon as administratively practicable after the Determination Date.

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**Bonus Amounts** Bonus amounts awarded will be based on the percentage attainment of Net Income as set forth below. The annual budget approved by the Company’s Board of Directors will be used to determine the payout.

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**Bonus Opportunity** The table below shows the percentage as it relates to achievement of Company Level Net Income. Bonus percentage is calculated based upon the annual salary in effect on the last day of the fiscal year.

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**Profit Plan** Net income for this bonus plan will exclude the financial effect of all unusual, infrequent or extraordinary items, all as defined in accordance with Generally Accepted Accounting Principles.

| Attainment of Profit Plan | CEO | COO | SR VP | VP |
|---------------------------|-----|-----|-------|----|
| Less than 90%             | 0   | 0   | 0     | 0  |
| 90% but less than 93%     | 19  | 12  | 10    | 7  |
| 93% but less than 95%     | 28  | 21  | 17    | 11 |
| 95% but less than 98%     | 36  | 30  | 24    | 15 |
| 98% but less than 100%    | 54  | 45  | 35    | 20 |
| 100% but less than 102%   | 75  | 60  | 45    | 28 |
| 102% but less than 104%   | 93  | 72  | 60    | 36 |
| 104% but less than 106%   | 101 | 86  | 68    | 41 |
| 106% but less than 108%   | 119 | 100 | 75    | 46 |
| 108% but less than 110%   | 136 | 114 | 82    | 51 |
| 110%                      | 150 | 120 | 90    | 56 |

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**Right of discharge reserved** Nothing in the plan shall confer upon any participant the right to continue in the employment of the Company or affect any right that the Company may have to terminate the employment of such participant.

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|                                             |                                                                                                                                                                                                                                                                                       |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Amendment or termination of the plan</b> | The Company, with the approval of the Compensation Committee of the of the Board of Directors, reserves the right to discontinue or modify the plan at any time and for any reason whatsoever, without prior notice and without further liability of the Company to the participants. |
| <b>Effective date</b>                       | The plan shall be effective for fiscal years commencing on and after December 30, 2001.                                                                                                                                                                                               |
| <b>Governing law</b>                        | The plan shall be governed by and construed in accordance with the internal laws of the state of Delaware.                                                                                                                                                                            |





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**ISC** TRACTOR  
SUPPLY CO.

★ 2002 ANNUAL REPORT ★

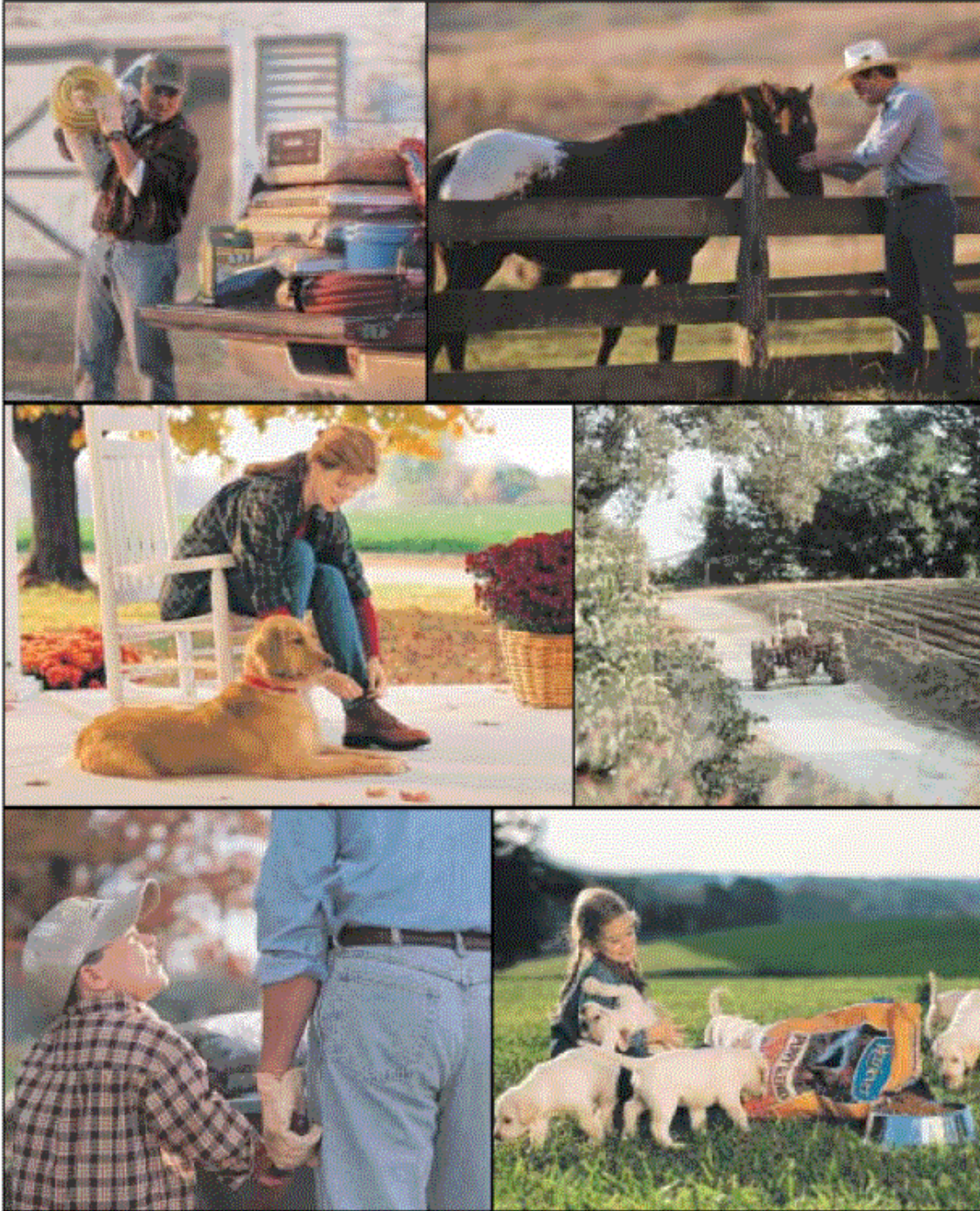
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# ★ THE GOOD LIFE IS OUT HERE ★

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**TSC TRACTOR  
SUPPLY CO**

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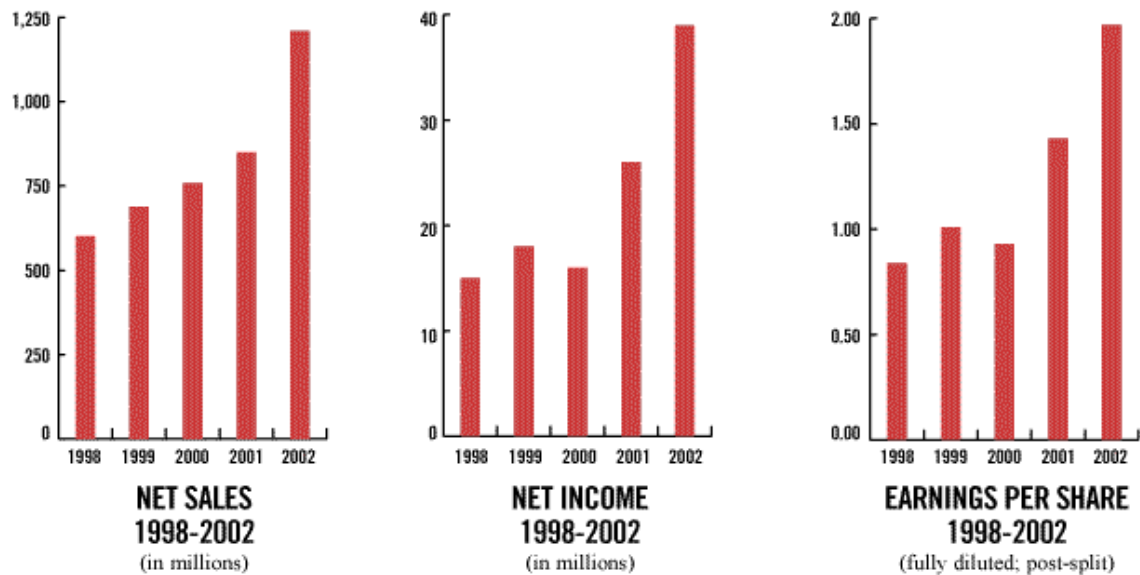
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EX-23.4 CONSENT OF PRICEWATERHOUSECOOPERS LLP

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# ★ COMPANY PROFILE ★

Tractor Supply Company is the largest operator of retail farm and ranch stores in the United States. Our focus is on supplying the lifestyle needs of recreational farmers and ranchers, and serving the maintenance needs of those who enjoy the rural lifestyle, as well as tradesmen and small businesses. Our stores are located in towns outlying major metropolitan markets and in rural communities. This niche uniquely positions us to offer a wide, yet very select, assortment of products: (1) livestock and pet care products, including everything necessary for their health, growth and containment; (2) maintenance products for agricultural and rural use; (3) hardware and tool products; (4) seasonal products, including lawn and garden power equipment; (5) truck, trailer and towing products; and (6) work clothing for the entire family.

# ★ FINANCIAL HIGHLIGHTS ★



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# ★ LETTER TO SHAREHOLDERS ★

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## ★ CONSISTENCY IS THE KEY ★

Consistency may be the best word to describe the source of our continuing success. We know our customers very well, and we consistently focus on their basic needs without getting sidetracked into different and unrelated product categories. We remain committed to serving those who live **OUT HERE**.

We are proud of our 2002 performance—record sales, strong same-store sales growth (the most important measure in retailing), record profits and 113 new store openings. This performance enables us to continue investing in our team and strengthening the overall leadership.

At Tractor Supply Company, we consistently promote customer service. We constantly tell “success stories” about acts of extraordinary customer service: going the extra mile and doing whatever it takes. We have a clear mission and a solid value structure that are the backbone of our purpose and culture. We’ve built an infrastructure that gives our team members the tools to be the absolute best retailers in America.

We are consistent in our retail format. Tractor Supply stores are relatively small and will stay that way. Our product assortment is significantly differentiated from that of the “big box” chains. We’re more focused and clearly aligned with our target customers’ basic needs.

We stay consistently in-stock on the basic products. We have strong inventory replenishment execution, and we’ve accelerated inventory turnover. At the same time, we have more test products and test programs in our pipeline than ever before. The more successful tests we have today, the more new products we will introduce and sell tomorrow.

The bottom line is consistency. We’re consistent in our beliefs and our practices, and our commitments to our team members, customers and shareholders. Every decision we make is first filtered through our core Mission and Values. It is this kind of consistency that provides alignment and focus. It is the foundation upon which we build stability of performance.

We are excited about our future. Our strategy remains clearly focused on the following drivers of success:

## ★ A GREAT PLACE TO SHOP ★

We are on a mission to ensure that Tractor Supply Company is a great place to shop today and an even better place to shop tomorrow. We work diligently to build lifetime relationships and have earned a unique position in the hearts and minds of our customers. You’ll find that we actually know many of our regular customers by name. They send their friends to our stores. They trust us.

## ★ A GREAT PLACE TO WORK ★

We strive to make Tractor Supply Company a great place to work. Our team members have every opportunity to grow and advance. We carefully select the best people for our team—people with winning attitudes and heartfelt enthusiasm for the rural lifestyle. We welcome new team members into our organization with orientation and training that works to ensure their success. The results thus far: lower turnover and *team member pride* in Tractor Supply Company.

## ★ A GREAT PLACE TO INVEST ★

We feel confident that by consistently doing the basics right—day in and day out—we will produce the best long-term financial results for Tractor Supply Company. We believe in making solid, long-term decisions that are in the best interest of our shareholders. We consistently believe everything can and should be improved. When we do the basics right, the good numbers will follow—making Tractor Supply Company “a great place to invest.”





## ★ LETTER TO SHAREHOLDERS (continued) ★

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### ★ BRAND INITIATIVE ★

This year we celebrate our 65th anniversary—65 years of the Tractor Supply Company brand. We have steadily built our brand by providing legendary customer service. We do “whatever it takes” to satisfy our customers! We build our brand by selling quality products at competitive prices. Our customers have always known Tractor Supply Company means good value. Recent consumer research describes Tractor Supply Company as “a brand you can trust.” We’re proud of our brand and strive to make it the center of everything we do.

### ★ OPERATING EFFICIENCY ★

Tractor Supply Company is committed to the *growth and development of our team members*. This commitment is reflected in the formation of Tractor Supply University, popularly known as “Tractor U.” We have partnered with Belmont University in Nashville to create strong college-level development programs to build our leadership team for the future.

We are also committed to the absolute best *product assortment* for our customers. We are driven by new product testing and speed to market. At the same time, we are committed to cut time and cost out of the supply chain. Inventory turnover has improved significantly in recent years, and we anticipate additional future improvements. We are implementing scores of “best business practices” — all leading to greater operating efficiency.

### ★ STORE GROWTH ★

Last year, we grew our store base substantially with a major asset purchase—seizing a huge opportunity. We currently have over 600 additional new store market opportunities and are constantly reviewing more potential new store markets. We plan to open between 30 and 35 new stores in 2003.

In future years, we plan to grow our store count at an 8%-10% annual rate. In addition, we will upgrade and relocate older stores. By the end of 2006, we will have “updated” all our real estate.

After the nearly double-digit same-store sales growth in 2002, we are estimating same-store sales growth at approximately 3% in 2003. Beyond this year, we expect annual same-store sales growth to average between 4.5% and 5.0%.

### ★ SUCCESS STORIES ★

Success stories run throughout our Company: how Bobby turned a customer’s apprehension into a \$35 sale, how Susan helped a customer find a specific product in her TSC store and how Dale went the extra mile in customer service. *Satisfaction is guaranteed at Tractor Supply Company*. Everyone has the authority to do whatever it takes. We’re dedicated to improving the shopping experience in our stores and being the *best* team in retailing. Our goal is to be *first* in our customers’ eyes. We will achieve this with a clear, long-term vision, top-notch people, and a first-class brand.

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Tractor Supply Company is a solid and consistent organization with a very bright future. We believe **THE GOOD LIFE IS OUT HERE**, and we’re glad you are with us!



Joe Scarlett,  
Chairman of the Board and CEO



Jim Wright,  
President and COO



# ★MISSION & VALUES★

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OUT HERE, WHERE OUR CUSTOMERS LIVE,  
A CLEAR STATEMENT OF MISSION AND A SOLID VALUE STRUCTURE  
MAKE LIVING JUST PLAIN EASIER.



For 65 years, Tractor Supply Company’s performance has been built on the solid foundation of our Mission and Values. These are our marching orders. They are the words and ideas we live by. Adherence to these guiding principles has proven to be the backbone of our success.

Customer satisfaction goes a long way in the retail business and is the only way to guarantee repeat customers. Our team members strive to provide legendary service and a wide variety of products at everyday low prices. Tractor Supply Company recognizes that in order to gain customer respect and loyalty, our brand must be protected. Doing all we can to ensure customer satisfaction and going the extra mile to make positive things happen does just that.

We have a strong work ethic and a commitment to a workplace where everyone has the opportunity to succeed. Our team members are encouraged to adopt these principles and refer to them regularly. We have set a moral standard within the Company which holds each of us accountable. We believe that by living out these values, everyone benefits —our customers, our team members and our shareholders.

Tractor Supply Company has the products for every aspect of **THE GOOD LIFE** —livestock and pet products, farm and ranch maintenance, hardware and tools, lawn tractors, heating equipment, truck/towing/trailer products and work clothing for the entire family. Tractor Supply Company is ready and eager to meet the needs of all who believe **THE GOOD LIFE IS OUT HERE** .

We are ready to meet this new year head-on and seize new opportunities. As a forward-thinking company committed to growth, Tractor Supply Company remains forever flexible and accepting of change. But as keepers of the Mission and Values written above, all team members are as rigid and stubborn as they come!



# ★ EXPANSION ★

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OUT HERE, WE'RE GROWING,  
SO YOU CAN GET THE STUFF YOU NEED.



STORE TOTALS BY STATE, YEAR ENDED 2002

We provide the good life for our customers by being **OUT HERE** where our customers need us. Our team members work hard to understand every customer. That’s why we continue to grow—we need to be where our customers are!

Tractor Supply Company embarked on a rare and exciting opportunity in early 2002. We implemented the largest new store expansion in Company history by purchasing 100 locations from a competitor. With 110% effort from all team members, the expansion was successfully achieved, and we experienced fabulous growth in 2002.

Most importantly, thousands of new customers discovered the Tractor Supply shopping experience and now know where to go for the products and expertise they need to support their rural lifestyle. Tractor Supply Company is **OUT HERE** and we have **THE STUFF YOU NEED** .





## FIVE YEAR SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

|                                                | Fiscal Year Ended |                                                                         |                  |                  |                  |
|------------------------------------------------|-------------------|-------------------------------------------------------------------------|------------------|------------------|------------------|
|                                                | Dec. 28,<br>2002  | (in thousands, except per share and operating data)<br>Dec. 29,<br>2001 | Dec. 30,<br>2000 | Jan. 1,<br>2000* | Dec. 26,<br>1998 |
| <b>Operating Results:</b>                      |                   |                                                                         |                  |                  |                  |
| Net sales                                      | \$1,209,990       | \$ 849,799                                                              | \$ 759,037       | \$ 688,082       | \$ 600,677       |
| Gross profit                                   | 342,187           | 228,344                                                                 | 200,407          | 181,251          | 154,638          |
| Selling, general and administrative expenses   | 260,290           | 178,243                                                                 | 156,535          | 139,735          | 120,734          |
| Depreciation and amortization                  | 16,457            | 11,254                                                                  | 9,889            | 7,311            | 5,342            |
| Income from operations                         | 65,440            | 38,847                                                                  | 33,983           | 34,215           | 28,562           |
| Interest expense, net                          | 4,707             | 4,494                                                                   | 6,387            | 4,104            | 3,270            |
| Unusual item: gain on life insurance           | —                 | 2,173                                                                   | —                | —                | —                |
| Income before income taxes                     | 60,733            | 36,526                                                                  | 27,596           | 30,111           | 25,292           |
| Income tax provision                           | 21,963            | 10,752                                                                  | 11,206           | 12,237           | 10,492           |
| Net income                                     | \$ 38,770         | \$ 25,774                                                               | \$ 16,390        | \$ 17,874        | \$ 14,800        |
| Net income per share - basic (a)               | \$ 2.15           | \$ 1.46                                                                 | \$ 0.93          | \$ 1.02          | \$ 0.85          |
| Net income per share - diluted (a)             | \$ 1.97           | \$ 1.43                                                                 | \$ 0.93          | \$ 1.01          | \$ 0.84          |
| Dividends declared per share                   | —                 | —                                                                       | —                | —                | —                |
| <b>Operating Data (percent to sales):</b>      |                   |                                                                         |                  |                  |                  |
| Gross profit                                   | 28.3%             | 26.9%                                                                   | 26.4%            | 26.3%            | 25.7%            |
| Selling, general and administrative expenses   | 21.5%             | 21.0%                                                                   | 20.6%            | 20.3%            | 20.1%            |
| Income from operations                         | 5.4%              | 4.6%                                                                    | 4.5%             | 5.0%             | 4.7%             |
| Net income                                     | 3.2%              | 3.0%                                                                    | 2.2%             | 2.6%             | 2.5%             |
| <b>Number of stores:</b>                       |                   |                                                                         |                  |                  |                  |
| Beginning of year                              | 323               | 305                                                                     | 273              | 243              | 228              |
| New stores                                     | 113               | 18                                                                      | 35               | 31               | 15               |
| Closed stores                                  | (3)               | —                                                                       | (3)              | (1)              | —                |
| End of year                                    | 433               | 323                                                                     | 305              | 273              | 243              |
| Number of relocated stores                     | 16                | 1                                                                       | 1                | 1                | 1                |
| Number of remodeled stores (b)                 | 8                 | 4                                                                       | —                | —                | —                |
| Total selling square footage at period-end (c) | 6,355,533         | 4,164,190                                                               | 3,904,958        | 3,448,347        | 3,014,196        |
| Average sales per store (in thousands) (d)     | \$ 3,045          | \$ 2,699                                                                | \$ 2,603         | \$ 2,682         | \$ 2,542         |
| Net sales per square foot of selling space     | \$ 216            | \$ 209                                                                  | \$ 204           | \$ 214           | \$ 206           |
| Same-store sales increase (e)                  | 9.6%              | 3.8%                                                                    | 0.4%             | 4.4%             | 10.9%            |
| <b>Balance Sheet Data (at end of period):</b>  |                   |                                                                         |                  |                  |                  |
| Working capital                                | \$ 143,835        | \$ 122,309                                                              | \$ 133,731       | \$ 117,306       | \$ 95,530        |
| Total assets                                   | 458,919           | 338,482                                                                 | 332,296          | 302,630          | 264,649          |
| Long-term debt, less current portion (f)       | 39,100            | 23,157                                                                  | 62,950           | 54,683           | 37,132           |
| Stockholders' equity                           | 227,848           | 181,296                                                                 | 155,036          | 138,305          | 119,976          |

\* 53-week fiscal year

(a) Basic net income per share is calculated based on the weighted average number of common shares outstanding applied to net income. Diluted net income per share is calculated using the treasury stock method for options and warrants. All share and per share data have been adjusted to reflect a two-for-one stock split distributed in August 2002.

(b) Includes remodelings costing more than \$150,000.

(c) Total selling square footage includes normal selling space and excludes office, stockroom, receiving space and outside selling space.

(d) Average sales per store are calculated based on the weighted average number of days open in the applicable period.

(e) Same-store sales increases are calculated on an annual basis, excluding relocations, using all stores open at least one year.

(f) Long-term debt includes borrowings under the Company's principal revolving credit agreement, term loan agreements and other debt outstanding.

under its capital lease obligations, excluding the current portions of each.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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The following discussion and analysis describes certain factors affecting Tractor Supply Company (the "Company"), its results of operations for the three fiscal years ended December 28, 2002, and its liquidity and capital resources. This discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report. The following discussion and analysis also contains certain historical and forward-looking information. The forward-looking statements included in this Annual Report 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 the Company expects or anticipates 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 Company's business operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, the Company is identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by or on behalf of the Company.

All phases of the Company's operations are subject to influences outside its control. Any one, or a combination, of these factors could materially affect the results of the Company's operations. These factors include general economic cycles affecting consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, pricing and other competitive factors, the ability to attract, train and retain highly qualified employees, the ability to identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions in general, threats of war or terrorism, and the seasonality of the Company's business. Forward-looking statements made by or on behalf of the Company are based on knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business and operations.

The Company's fiscal year ends on the Saturday closest to December 31.

### Overview

The Company is the largest operator of retail farm and ranch stores in the United States, focused on supplying the lifestyle needs of recreational farmers and ranchers and serving the maintenance needs of those who enjoy the rural lifestyle, as well as tradesmen and small businesses. Stores are located in towns outlying major metropolitan markets and in rural communities. The Company offers the following comprehensive selection of merchandise: (1) livestock and pet products, including everything necessary for their health, growth and containment; (2) maintenance products for agricultural and rural use; (3) hardware and tool products; (4) seasonal products, including lawn and garden power equipment; (5) truck, trailer and towing products; and (6) work clothing for the entire family. The Company's stores typically range in size from 12,500 to 18,000 square feet of inside selling space and utilize at least as many square feet of outside selling space.

The Company's current and long-term growth strategy is to (1) expand geographic market presence, achieved by opening new retail stores at an annual growth rate of 8% to 10% and (2) enhance financial performance through same-store sales increases, achieved through aggressive merchandising programs with an "everyday low prices" philosophy, supported by strong customer service.

The Company has experienced considerable growth in recent years, including the addition of 35 stores in fiscal 2000, 18 in fiscal 2001 and 113 in fiscal 2002. This growth has increased the Company's market presence in the Southwest, primarily in Texas, the Southeast, primarily in Tennessee, Kentucky, North Carolina and Florida; in the central northern part of the United States, primarily in Ohio and Michigan and in the Northeast, primarily in Pennsylvania and New



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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York. The Company operates 433 stores in 30 states as of December 28, 2002 and has a base plan to open 30 to 35 stores in fiscal 2003. The Company plans to open 40 to 45 new stores in fiscal 2004 and additional stores thereafter. The Company has identified over 600 potential additional locations for new stores in the United States. In addition, the Company continues to identify opportunities to relocate existing stores to ensure optimal locations to promote growth.

During the first quarter of 2002, the Company purchased real property for 24 store locations, lease rights for 76 store locations and fixtures from 100 stores from Quality Stores, Inc. (which was in liquidation bankruptcy). During fiscal 2002, 87 stores were opened as new Tractor Supply stores, and nine Tractor Supply stores were relocated to the acquired locations. The Company has also decided to open one additional store (previously classified as assets held for sale) and hold the remaining of the locations for sale. With this transaction, the Company has achieved a store growth plan in fiscal 2002 which is approximately four times the historical unit store growth plan for a single year. The Company avoided the potential pitfalls of acquiring redundant headquarters and information systems and did not acquire any inventory, thus avoiding the challenges of integrating similar product with dissimilar packaging into its existing stock, as well as avoiding the challenge of liquidating other products which conflict with the Company's existing product offerings. Rather, the Company selected only the geographic markets that it believed had the greatest potential.

This aggressive expansion occurred in a more compressed timeframe than the Company's historical store growth, including the opening of 90 stores in the second quarter of fiscal 2002. To achieve this level of growth, the Company devoted substantial resources toward this endeavor and incurred considerable cost to ensure the stores were opened in accordance with the planned strategy. The transition of these locations to Tractor Supply Company stores was completed during the third fiscal quarter.

Additionally, the Company has placed significant emphasis on its merchandising programs, evaluating the sales and profitability of its products through detailed line reviews, review of vendor performance measures and modification of the overall product offerings. These efforts, coupled with a strong marketing program and in-depth product knowledge training of store employees, have enhanced sales, improved gross margins and generated improved overall financial performance.

### Seasonality and Weather

The Company's business is highly seasonal. Historically, the Company's sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the sale of seasonal products. The Company typically operates at a net loss in the first fiscal quarter of each year. Unseasonable weather, excessive rain, drought, and early or late frosts may also affect the Company's sales. The Company believes, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of its stores.

The Company experiences a buildup of inventory and accounts payable during its first fiscal quarter each year for purchases of seasonal product in anticipation of the April through June selling season and again during its third fiscal quarter in anticipation of the October through December selling season.

### Significant Accounting Policies and Estimates

Management's discussion and analysis of the Company's financial position and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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. The Company's significant accounting policies, including areas of critical management judgments and estimates, have primary impact on the following financial statement areas:



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- Inventory valuation, including reserves
- Sales returns
- Impairment of long-lived assets
- Inventory shrinkage
- Self-insurance
- Advertising costs

The Company's critical accounting policies are subject to judgments and uncertainties, which affect the application of such policies. (See Note 1 to the Consolidated Financial Statements.) The Company's 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.

### Quarterly Financial Data

The Company's unaudited quarterly operating results for each fiscal quarter of 2002 and 2001 are shown below (dollars in thousands, except per share amounts):

| 2002                                               | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total       |
|----------------------------------------------------|------------------|-------------------|------------------|-------------------|-------------|
| Net sales                                          | \$193,810        | \$392,048         | \$296,215        | \$327,917         | \$1,209,990 |
| Gross profit                                       | 51,979           | 108,391           | 84,019           | 97,798            | 342,187     |
| Income (loss) from operations                      | (5,401)          | 29,125            | 13,312           | 28,404            | 65,440      |
| Net income (loss)                                  | (4,010)          | 17,346            | 7,801            | 17,633            | 38,770      |
| Net income (loss) per share — basic                | \$ (0.22)        | \$ 0.96           | \$ 0.43          | \$ 0.97           | \$ 2.15     |
| Net income (loss) per share — assuming<br>dilution | \$ (0.22)        | \$ 0.88           | \$ 0.39          | \$ 0.88           | \$ 1.97     |
| 2001                                               | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total       |
| Net sales                                          | \$162,517        | \$267,490         | \$199,435        | \$220,357         | \$849,799   |
| Gross profit                                       | 42,095           | 71,793            | 53,972           | 60,484            | 228,344     |
| Income (loss) from operations                      | (1,565)          | 23,455            | 4,933            | 12,024            | 38,847      |
| Net income (loss)                                  | (1,849)          | 15,644            | 2,425            | 9,554             | 25,774      |
| Net income (loss) per share — basic                | \$ (0.11)        | \$ 0.89           | \$ 0.14          | \$ 0.54           | \$ 1.46     |
| Net income (loss) per share — assuming<br>dilution | \$ (0.11)        | \$ 0.88           | \$ 0.13          | \$ 0.51           | \$ 1.43     |

On July 18, 2002, the Company's Board of Directors approved a two-for-one split of the Company's common stock. As a result, stockholders received one additional share on August 19, 2002 for each share held as of the record date of August 2, 2002. The par value of the Company's common stock remains \$0.008. All share and per share data presented in this Annual Report has been adjusted to reflect the stock split.

In the second quarter of 2001, a former executive of the Company, on whom the Company carried a life insurance policy, passed away. As a result of this related coverage, the Company realized a \$2.2 million gain on the life insurance proceeds. Additionally, the Company reevaluated its tax exposure in the fourth quarter of 2001 and, as a result of the favorable resolution of certain tax issues along with the closing of open tax years, reduced previously accrued income tax liabilities by \$2.5 million.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Results of Operations

The following table sets forth, for the periods indicated, certain items in the Company's Consolidated Statements of Income expressed as a percentage of net sales:

|                                              | Fiscal Year Ended |                  |                  |
|----------------------------------------------|-------------------|------------------|------------------|
|                                              | Dec. 28,<br>2002  | Dec. 29,<br>2001 | Dec. 30,<br>2000 |
| Net sales                                    | 100.0%            | 100.0%           | 100.0%           |
| Cost of merchandise sold                     | 71.7              | 73.1             | 73.6             |
| Gross profit                                 | 28.3              | 26.9             | 26.4             |
| Selling, general and administrative expenses | 21.5              | 21.0             | 20.6             |
| Depreciation and amortization                | 1.4               | 1.3              | 1.3              |
| Income from operations                       | 5.4               | 4.6              | 4.5              |
| Interest expense, net                        | 0.4               | 0.5              | 0.8              |
| Unusual item — gain on life insurance        | —                 | 0.2              | —                |
| Income before income taxes                   | 5.0               | 4.3              | 3.7              |
| Income tax provision                         | 1.8               | 1.3              | 1.5              |
|                                              | 3.2%              | 3.0%             | 2.2%             |

### Fiscal 2002 Compared to Fiscal 2001

Net sales increased 42.4% to \$1,210.0 million in fiscal 2002 from \$849.8 million in fiscal 2001. This increase resulted from the opening of new stores as well as same-store sales improvement of 9.6%. The significant improvement in same-store sales in fiscal 2002 is due primarily to new merchandising programs, special promotions, market share gains in certain markets and improved in-store execution. In fiscal 2002, the Company opened 113 new stores (compared to 18 in the prior year), closed three stores (compared to none in the prior year) and relocated 16 stores (compared to one in the prior year).

At December 28, 2002, the Company operated 433 stores compared to 323 stores at the end of fiscal 2001.

The gross margin rate increased to 28.3% of sales in fiscal 2002 from 26.9% in fiscal 2001. This gross margin improvement was primarily due to improved product costs (including a \$1.4 million favorable LIFO experience), changes in the sales mix, increased volume rebates and improved leveraging of freight costs.

As a percent of sales, selling, general and administrative (SG&A) expenses increased to 21.5% for fiscal 2002 from 21.0% for fiscal 2001. The increase includes incremental pre-tax costs of \$10.7 million for pre-opening transition and training costs related to the 87-store expansion, costs for store relocations and three store closings. Exclusive of these incremental costs related to the expansion, SG&A expense, as a percent of sales, decreased 0.4 percentage point to 20.6% for fiscal 2002. On an absolute basis, SG&A expenses increased 46.0% to \$260.3 million. These increases primarily reflect the incremental expansion costs, the remaining incremental costs associated with the new stores opened in fiscal 2002, as well as higher variable store operating costs associated with the same-store sales increase and higher incentive compensation accruals.

During fiscal 2002, the Company continued its major media advertising program which included a national television campaign featuring a celebrity spokesperson, significantly expanded use of radio promotions and direct mail, and increased print advertising. This program is partially funded each year through the support of the Company's vendor partners.

Depreciation and amortization expense increased 46.2% over the prior year due mainly to costs associated with new



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

and relocated stores, as well as remodeled existing stores.

Net interest expense increased 4.7% in fiscal 2002 from fiscal 2001 resulting from increased borrowings under the senior credit facility to fund significant new store expansion.

The Company's effective tax rate decreased to 36.2% for fiscal 2002 compared with 38.6% for fiscal 2001 (exclusive of a non-taxable \$2.2 million gain from the proceeds of life insurance and a \$2.5 million reduction of previously accrued income taxes, both of which occurred during 2001). The effective tax rate decreased primarily due to reductions in state income taxes.

The Company reevaluated its tax exposure during the quarter ended December 29, 2001, and, as a result of the favorable resolution of certain tax issues, along with the closing of open tax years, the Company reduced previously accrued income tax liabilities by \$2.5 million.

Net income increased 50.4% to \$38.8 million in fiscal 2002 from \$25.8 million in fiscal 2001, and net income per share (assuming dilution) for fiscal 2002 increased 37.8% to \$1.97 per share from \$1.43 per share for fiscal 2001. As a percentage of sales, net income increased 0.2 percentage point to 3.2% of sales for fiscal 2002 from 3.0% of sales for fiscal 2001.

The following chart presents earnings per share, reflecting the effect of certain significant matters:

|                                                    | 2002            |               |                  | 2001            |               |                  |
|----------------------------------------------------|-----------------|---------------|------------------|-----------------|---------------|------------------|
|                                                    | Income          | Shares        | Per Share Amount | Income          | Shares        | Per Share Amount |
| <b>Basic earnings per share:</b>                   |                 |               |                  |                 |               |                  |
| Net income — as reported                           | \$38,770        | 18,056        | \$2.15           | \$25,774        | 17,648        | \$ 1.46          |
| Non-recurring store expansion costs (net of taxes) | 6,666           | 18,056        | 0.37             | —               | —             | —                |
| Unusual item: insurance proceeds                   | —               | —             | —                | (2,173)         | 17,648        | (0.12)           |
| Adjustment of deferred taxes                       | —               | —             | —                | (2,500)         | 17,648        | (0.14)           |
|                                                    | <u>\$45,436</u> | <u>18,056</u> | <u>\$2.52</u>    | <u>\$21,101</u> | <u>17,648</u> | <u>\$ 1.20</u>   |
| <b>Diluted earnings per share:</b>                 |                 |               |                  |                 |               |                  |
| Net income — as reported                           | \$38,770        | 19,638        | \$1.97           | \$25,774        | 18,081        | \$ 1.43          |
| Non-recurring store expansion costs (net of taxes) | 6,666           | 19,638        | 0.34             | —               | —             | —                |
| Unusual item: insurance proceeds                   | —               | —             | —                | (2,173)         | 18,081        | (0.12)           |
| Adjustment of deferred taxes                       | —               | —             | —                | (2,500)         | 18,081        | (0.14)           |
|                                                    | <u>\$45,436</u> | <u>19,638</u> | <u>\$2.31</u>    | <u>\$21,101</u> | <u>18,081</u> | <u>\$ 1.17</u>   |

### Fiscal 2001 Compared to Fiscal 2000

Net sales increased 12.0% to \$849.8 million in fiscal 2001 from \$759.0 million in fiscal 2000. This increase resulted from the opening of new stores as well as same-store sales improvement of 3.8%. The increase in same-store sales for fiscal 2001 was a result of new merchandising programs and reduced competition in certain markets, offset by general economic challenges in 2001 and the warmer weather patterns in the fourth quarter of fiscal 2001. The Company opened 18 new stores and relocated one store in fiscal 2001. The Company opened 35 new stores, closed three stores and relocated one store in fiscal 2000. At December 29, 2001, the Company operated 323 stores compared to 305 stores at the end of fiscal 2000.

The gross margin rate increased to 26.9% of sales in fiscal 2001 from 26.4% in fiscal 2000. This gross margin



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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improvement resulted from a reduction in product costs achieved through detailed product line reviews, improved product assortments and other merchandising initiatives.

As a percent of sales, selling, general and administrative expenses increased 0.4 percentage point to 21.0% for fiscal 2001 from 20.6% for fiscal 2000. On an absolute basis, selling, general and administrative expenses increased 13.9% to \$178.2 million for fiscal 2001 from \$156.5 million in fiscal 2000. The increase in expenses on a percentage-of-sales basis is primarily a result of increased store-level expenses (primarily payroll and training) and higher incentive accruals, offset, in part, by greater leverage from same-store sales performance. The increase in absolute dollars is primarily attributable to costs associated with new store openings (new stores have considerably higher occupancy costs, primarily rent, than the existing store base), as well as increased store payroll, training and higher incentive accruals.

During fiscal 2001, the Company continued its major media advertising program which included a national television campaign featuring a celebrity spokesperson, significantly expanded use of radio promotions and increased print advertising. This program is partially funded each year through the support of the Company's vendor partners.

Depreciation and amortization expense increased 13.8% over the prior year due mainly to costs associated with new and relocated stores and remodeled existing stores.

Net interest expense decreased 29.6% in fiscal 2001 from fiscal 2000 resulting from reduced borrowings, as well as reduced interest rates during the period.

In April 2001, a former executive of the Company, on whom the Company carried a life insurance policy, passed away. The Company realized a \$2.2 million gain on the life insurance proceeds.

The Company reevaluated its tax exposure during the quarter ended December 29, 2001; as a result of the favorable resolution of certain tax issues, along with the closing of open tax years, the Company reduced previously accrued income tax liabilities by \$2.5 million. Exclusive of the non-taxable \$2.2 million gain on the proceeds of life insurance and the \$2.5 million income tax adjustment, the Company's effective tax rate decreased to 38.6% for fiscal 2001 compared to 40.6% for fiscal 2000. The effective tax rate decreased primarily due to a reduction in state income taxes.

Net income increased 57.3% to \$25.8 million in fiscal 2001 from \$16.4 million for fiscal 2000, and net income per share (assuming dilution) for fiscal 2001 increased 53.8% to \$1.43 per share from \$0.93 per share for fiscal 2000. As a percentage of sales, net income increased 0.8 percentage point to 3.0% of sales for fiscal 2001 from 2.2% of sales for fiscal 2000.





## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following chart presents earnings per share, reflecting the effect of certain significant matters:

|                                    | 2002            |               |                  | 2001            |               |                  |
|------------------------------------|-----------------|---------------|------------------|-----------------|---------------|------------------|
|                                    | Income          | Shares        | Per Share Amount | Income          | Shares        | Per Share Amount |
| <b>Basic earnings per share:</b>   |                 |               |                  |                 |               |                  |
| Net income — as reported           | \$25,774        | 17,648        | \$ 1.46          | \$16,390        | 17,564        | \$0.93           |
| Unusual item: insurance proceeds   | (2,173)         | 17,648        | (0.12)           | —               | —             | —                |
| Adjustment of deferred taxes       | (2,500)         | 17,648        | (0.14)           | —               | —             | —                |
|                                    | <u>\$21,101</u> | <u>17,648</u> | <u>\$ 1.20</u>   | <u>\$16,390</u> | <u>17,564</u> | <u>\$0.93</u>    |
| <b>Diluted earnings per share:</b> |                 |               |                  |                 |               |                  |
| Net income — as reported           | \$25,774        | 18,081        | \$ 1.43          | \$16,390        | 17,721        | \$0.93           |
| Unusual item: insurance proceeds   | (2,173)         | 18,081        | (0.12)           | —               | —             | —                |
| Adjustment of deferred taxes       | (2,500)         | 18,081        | (0.14)           | —               | —             | —                |
|                                    | <u>\$21,101</u> | <u>18,081</u> | <u>\$ 1.17</u>   | <u>\$16,390</u> | <u>17,721</u> | <u>\$0.93</u>    |

### Liquidity and Capital Resources

In addition to normal operating expenses, the Company's primary ongoing cash requirements are for expansion, remodeling and relocation programs, including inventory purchases and capital expenditures. The Company's primary ongoing sources of liquidity are funds provided from operations, commitments available under its revolving credit agreement and normal trade credit. The Company's inventory and accounts payable levels typically build in the first and again in the third fiscal quarters in anticipation of the spring and fall selling seasons.

At December 28, 2002, the Company's inventories had increased \$67.3 million to \$289.3 million from \$222.0 million at December 29, 2001. The increase resulted primarily from additional inventory for new stores (while average inventory levels per store declined 3% during the year). Trade credit increased \$33.9 million to \$114.9 million at December 28, 2002 from \$81.0 million at December 29, 2001. Trade credit arises from the Company's vendors granting extended payment terms for inventory purchases. Payment terms vary from 30 days to 180 days depending on the inventory product.

At December 28, 2002, the Company had working capital of \$143.8 million, a \$21.5 million increase from December 29, 2001. This increase resulted primarily from a \$67.3 million increase in inventories less a \$33.9 million increase in accounts payable, and a \$7.8 million change in deferred income taxes, offset, in part, by a \$23.3 million increase in accrued expenses (due largely to growth in operations, increased incentive compensation, and timing of payments).

In August 2002, the Company entered into a replacement unsecured senior revolving credit facility with Bank of America, N.A., as agent for a lender group, expanding the maximum available borrowings from \$125 million to \$155 million, extending the maturity to February 2006 and increasing the number of participating banks from seven to ten. The balance of funds available under the Senior Credit Facility may be utilized for borrowings, including up to \$50.0 million for letters of credit. The Credit Facility bears interest at either the bank's prime rate (4.25% at December 28, 2002) or the London Inter-Bank Offer Rate ("LIBOR") (1.42% at December 28, 2002) plus an additional amount ranging from .75% to 1.5% per annum, adjusted quarterly based on Company performance (1.00% at December 28, 2002). The Company is also required to pay, quarterly in arrears, a commitment fee ranging from .20% to .35% per annum, adjusted quarterly based on Company performance, on the average daily unused portion of the credit line. There are no compensating balance requirements associated with the Senior Credit Facility. The Company expects to continue borrowing amounts under the Senior Credit Facility from time to time to fund its growth and expansion programs and as a source of seasonal working capital.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Operations provided net cash of \$46.7 million in fiscal 2002, \$47.1 million in fiscal 2001 and \$10.2 million in fiscal 2000. The decrease in net cash provided in 2002 resulted primarily from inventories increasing more than accounts payable compared to fiscal 2001, offset, in part, by accrued expenses increasing more than in fiscal 2001 (primarily due to the growth in new stores, higher incentive compensation accruals and, to some extent, timing of payments). The generation of cash in fiscal 2001 resulted primarily from net income as well as inventories increasing less than accounts payable. The generation of cash in fiscal 2000 resulted primarily from net income offset, in part, by inventory increasing more than accounts payable.

Cash used in investing activities of \$62.6 million, \$10.7 million and \$16.7 million for fiscal 2002, 2001 and 2000, respectively, resulted primarily from capital expenditures to open 113 stores during 2002 compared to 18 new stores in fiscal 2001 and 35 stores in fiscal 2000.

Financing activities in fiscal 2002 provided \$20.8 million in cash, compared to \$36.6 million of cash used in fiscal 2001. This increase resulted primarily from net borrowings of \$ 18.4 million under the revolving credit agreement in fiscal 2002 compared to net repayments of approximately \$34.9 million in fiscal 2001 as well as repayments of long-term debt of \$2.1 million in fiscal 2002 compared to \$5.6 million in fiscal 2001. Additionally, the Company received proceeds of approximately \$4.8 million from issuance of common stock during fiscal 2002 compared to \$1.6 million during fiscal 2001 (such stock issuances related to the exercise of stock options and employee stock purchases). The overall increase was partially offset by net proceeds from life insurance benefits of \$2.5 million in fiscal 2001. Financing activities in fiscal 2001 used \$36.6 million in cash, which represented a \$45.3 million decrease from the \$8.7 million in cash provided in fiscal 2000. This decrease resulted primarily from net repayments of \$34.9 million under the revolving credit agreement in fiscal 2001 compared to net borrowings of approximately \$11.9 million in fiscal 2000, as well as repayments of long-term debt of \$5.6 million in fiscal 2001 compared to \$3.0 million in fiscal 2000.

The Company's capital additions were \$66.5 million, \$13.6 million and \$17.4 million in fiscal 2002, 2001 and 2000, respectively. In addition to the real property and fixtures purchased from Quality Stores, Inc., the majority of the capital additions were for store fixtures, equipment and leasehold improvements for new stores and remodeling of existing stores. The Company expects that its capital expenditures for fiscal 2003 will be approximately \$34.0 million; however, the Company cannot predict with certainty the amount of such expenditures because such new stores may be constructed, leased or acquired from others. The estimated cash required to open a new store is approximately \$0.8 to \$1.0 million, the majority of which is for the initial acquisition of inventory and capital expenditures, principally leasehold improvements, fixtures and equipment, and the balance of which is for store opening expenses.

The Company believes that its cash flow from operations, borrowings available under credit agreements and normal trade credit will be sufficient to fund the Company's operations and its capital expenditure needs, including store openings and renovations, over the next several years.

### Off-Balance Sheet Arrangements

The extent of the Company's off-balance sheet arrangements are operating leases for buildings and equipment for retail stores, distribution centers and offices (see Note 6 of Notes to the Consolidated Financial Statements for further discussion and scheduled payments of both operating and capital leases). In addition, the Company has outstanding letters of credit totaling \$3.9 million at December 28, 2002.

### Related Party Transactions

The Company's only related party transactions are capital lease arrangements on two retail stores entered into in 1986 (see Note 12 to accompanying financial statements).



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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### Litigation

The Company is involved in various litigation arising in the ordinary course of business. After consultation with legal counsel, management expects these matters will be resolved without material adverse effect on the Company's consolidated financial position or results of operations. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

### Environmental Matters

In connection with certain contaminated leased store properties vacated by the Company upon relocation in 2002, the Company has agreed to indemnify the property owners with respect to environmental liabilities associated with the use of those properties, as defined in the related lease agreements. During fiscal 2002, the Company has not paid or accrued material amounts related to these properties. The Company does not expect the expense of these activities to exceed \$0.1 million, however, because of the uncertainties associated with environmental assessment and remediation activities; the Company's future expenses to remediate the currently identified sites could be higher than amounts accrued. Future expenditures for environmental remediation may be affected in the near-term by identification of additional contaminated sites, the level and type of contamination found and the extent and nature of cleanup activities required.

### Quantitative and Qualitative Disclosures About Market Risk

The Company has entered into an interest rate swap agreement as a means of managing its interest rate exposure. This agreement has the effect of converting certain of the Company's variable rate obligations to fixed rate obligations. Net amounts paid or received are reflected as adjustment to interest expense.

The Company applies Statements of Financial Accounting Standards Nos. 133, 137, and 138 (collectively "SFAS 133") in the accounting for derivatives and hedging activities. SFAS 133 requires the Company to recognize all derivative instruments in the balance sheet at fair value. SFAS 133 impacts the accounting for the Company's interest rate swap agreement. The Company's interest rate swap agreement is designated as a cash flow hedge. At December 28, 2002 and December 29, 2001, the interest rate swap agreement hedged cash flows related to variable-rate debt of \$33.5 million and \$15.1 million, respectively. The fair value of the interest rate swap was a liability of \$1.7 million at December 28, 2002 and \$2.4 million at December 29, 2001. The interest rate swap agreement expires in November 2003.

The Company is exposed to changes in interest rates primarily from its variable-rate, long-term debt arrangements. Under its current policies, the Company uses the interest rate swap to manage exposure to interest rate changes for a portion of its debt arrangements. Taking into account the effects of the interest rate swap designated as hedge, a hypothetical 100 basis point adverse move (increase) in interest rates along the entire interest rate yield curve would result in approximately \$239,000 of additional interest expense and would not impact the fair market value of the long-term debt.

Although the Company cannot accurately determine the precise effect of inflation on its operations, it does not believe its sales or results of operations have been materially affected by inflation. The Company has been successful, in many cases, in reducing or mitigating the effects of inflation principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases and selective buying from the most competitive vendors without sacrificing quality.

### Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires asset impairments to be recognized when circumstances



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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indicate the carrying amount of the asset may not be recoverable. Impairment is recognized on assets classified as held and used when the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. Impairment on long-lived assets to be disposed of is recognized by writing down the related assets to their fair value (less costs to sell, as appropriate), when the criteria have been met for the asset to be classified as held for sale or disposal. The Company adopted the provisions of SFAS 144 during fiscal 2002.

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections," which required gains and losses from extinguishment of debt to no longer be classified as extraordinary items, net of related income tax effect. SFAS 145 requires that extinguishment gains or losses be classified as ordinary gains or losses, and that all such gains or losses in prior periods be reclassified to ordinary gain or loss in comparative financial statements. SFAS 145, which applies to all entities, is effective for fiscal years beginning after May 15, 2002. The Company expects that the adoption of SFAS 145 during fiscal 2003 will have no impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," requiring that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146, which applies to all entities, is effective for exit or disposal activities that are initiated after December 31, 2002. The Company expects that the adoption of SFAS 146 during fiscal 2003 will not materially impact the Company's financial position or results of operations.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 02-16 ("EITF 02-16"), "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor." This issue involves the accounting and income statement classification for consideration given by a vendor to a retailer in connection with the sale of the vendor's products or for the promotion of sales of the vendor's products. The EITF concluded that such consideration received from vendors should be reflected as a decrease in prices paid for inventory and recognized in cost of sales as the related inventory is sold, unless specific criteria are met qualifying the consideration for treatment as reimbursement of specific, identifiable incremental costs. Prior to adopting this pronouncement, the Company classified all vendor-provided marketing support funds as a reduction in selling, general and administrative expenses. Upon adoption, these funds received from vendors will be recognized as a reduction of cost of sales as the related vendor's purchased inventory is sold. As clarified by the EITF in January 2003, this issue is effective for arrangements with vendors initiated on or after January 1, 2003. The Company will implement the recognition requirements of this issue in the first quarter of fiscal 2003 and has not yet determined the impact that adoption will have on its fiscal year-end 2003 financial position or results of operations. Adoption of this requirement will have no impact on cash flows.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," which amends SFAS 123 "Accounting for Stock-Based Compensation." SFAS 148 provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. SFAS 148 is effective for financial statements issued for fiscal years ending after December 15, 2002, and interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as disclosed in Note 14 of Notes to Consolidated Financial Statements and does not utilize the fair value method. However, the Company has adopted the disclosure requirements of SFAS 123 and has adopted the additional disclosure requirements as specified in SFAS 148 in fiscal 2002.



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## REPORT OF MANAGEMENT

The consolidated financial statements presented in this Annual Report have been prepared with integrity and objectivity and are the responsibility of the management of Tractor Supply Company. These financial statements have been prepared in conformity with generally accepted accounting principles and properly reflect certain estimates and judgments based upon the best available information.

The Company maintains a system of internal accounting controls, which is supported by an internal audit program and is designed to provide reasonable assurance that the Company's assets are safeguarded and transactions are properly recorded. This system is continually reviewed and modified in response to changing business conditions and operations and as a result of recommendations by the external and internal auditors. We believe that the accounting and control systems provide reasonable assurance that the Company's assets are safeguarded and that the financial information presented is reliable.

Our Company supports a values structure that places strong ethics and open communications among its most critical success factors. We support an "open door" communication policy and encourage timely, effective and complete communication. We strongly encourage all team members to inform management at the appropriate level when they are concerned about any matter pertaining to the Company. Tractor Supply Company maintains a Code of Ethics to guide our team members in the continued observance of high ethical standards such as honesty, integrity and compliance with the law in the conduct of the Company's business. We obtain an annual acknowledgement of familiarity and compliance with the Code of Ethics from all members of management.

The 2002 and 2001 consolidated financial statements of the Company have been audited by Ernst & Young LLP, independent auditors. Their accompanying report is based upon an audit conducted in accordance with auditing standards generally accepted in the United States. We have made all financial records and related data available to Ernst & Young LLP.

The Audit Committee of the Board of Directors, consisting solely of independent directors, meets quarterly with the independent auditors, the internal auditors and representatives of management to discuss auditing and financial reporting matters. The Audit Committee, acting on behalf of the stockholders, maintains an ongoing appraisal of the internal accounting controls, the activities of the outside auditors and internal auditors and the financial condition of the Company. Both the Company's independent auditors and the internal auditors have free access to the Audit Committee.



Joseph H. Scarlett, Jr.  
*Chairman and Chief Executive Officer*



Calvin B. Massmann  
*Senior Vice President — Chief Financial Officer*

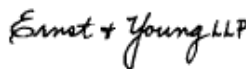
## REPORT OF INDEPENDENT AUDITORS

### **The Board of Directors and Stockholders Tractor Supply Company**

We have audited the accompanying consolidated balance sheets of Tractor Supply Company as of December 28, 2002 and December 29, 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated statements of income, stockholders' equity, and cash flows of Tractor Supply Company for the year ended December 30, 2000, were audited by other auditors whose report, dated January 24, 2001, expressed an unqualified opinion on those statements.

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

In our opinion, the 2002 and 2001 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tractor Supply Company at December 28, 2002 and December 29, 2001, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.



Ernst & Young LLP



**CONSOLIDATED STATEMENTS OF INCOME***(in thousands, except per share amounts)*

|                                              | For the fiscal year ended |                  |                  |
|----------------------------------------------|---------------------------|------------------|------------------|
|                                              | Dec. 28,<br>2002          | Dec. 29,<br>2001 | Dec. 30,<br>2000 |
| Net sales                                    | \$1,209,990               | \$849,799        | \$759,037        |
| Cost of merchandise                          | 867,803                   | 621,455          | 558,630          |
| Gross profit                                 | 342,187                   | 228,344          | 200,407          |
| Selling, general and administrative expenses | 260,290                   | 178,243          | 156,535          |
| Depreciation and amortization                | 16,457                    | 11,254           | 9,889            |
| Income from operations                       | 65,440                    | 38,847           | 33,983           |
| Interest expense, net                        | 4,707                     | 4,494            | 6,387            |
| Unusual item: gain on life insurance         | —                         | 2,173            | —                |
| Income before income taxes                   | 60,733                    | 36,526           | 27,596           |
| Income tax provision                         | 21,963                    | 10,752           | 11,206           |
| Net income                                   | \$ 38,770                 | \$ 25,774        | \$ 16,390        |
| Net income per share — basic                 | \$ 2.15                   | \$ 1.46          | \$ 0.93          |
| Net income per share — assuming dilution     | \$ 1.97                   | \$ 1.43          | \$ 0.93          |

*The accompanying notes are an integral part of this statement.*

# **CONSOLIDATED BALANCE SHEETS** (in thousands, except share amounts)

|                                                                                                                                                       | Dec. 28,<br>2002 | Dec. 29,<br>2001 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>ASSETS</b>                                                                                                                                         |                  |                  |
| Current assets:                                                                                                                                       |                  |                  |
| Cash and cash equivalents                                                                                                                             | \$ 13,773        | \$ 8,927         |
| Accounts receivable, net                                                                                                                              | 102              | 2,211            |
| Inventories                                                                                                                                           | 289,253          | 221,979          |
| Prepaid expenses and other current assets                                                                                                             | 17,579           | 18,845           |
| Assets held for sale                                                                                                                                  | 3,779            | —                |
| Deferred income taxes                                                                                                                                 | 7,784            | —                |
| Total current assets                                                                                                                                  | 332,270          | 251,962          |
| Property and Equipment:                                                                                                                               |                  |                  |
| Land                                                                                                                                                  | 12,569           | 6,365            |
| Buildings and improvements                                                                                                                            | 100,843          | 72,682           |
| Furniture, fixtures and equipment                                                                                                                     | 75,815           | 53,250           |
| Construction in progress                                                                                                                              | 4,271            | 5,699            |
| Total                                                                                                                                                 | 193,498          | 137,996          |
| Accumulated depreciation and amortization                                                                                                             | (69,953)         | (56,008)         |
| Property and equipment, net                                                                                                                           | 123,545          | 81,988           |
| Other assets                                                                                                                                          | 3,104            | 4,532            |
| Total assets                                                                                                                                          | \$458,919        | \$338,482        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                           |                  |                  |
| Current liabilities:                                                                                                                                  |                  |                  |
| Accounts payable                                                                                                                                      | \$114,851        | \$ 80,974        |
| Accrued employee compensation                                                                                                                         | 14,892           | 7,361            |
| Other accrued expenses                                                                                                                                | 51,410           | 35,582           |
| Current maturities of long-term debt                                                                                                                  | 2,142            | 2,142            |
| Current portion of capital lease obligations                                                                                                          | 340              | 309              |
| Income taxes currently payable                                                                                                                        | 3,101            | 3,111            |
| Other current liabilities                                                                                                                             | 1,699            | 174              |
| Total current liabilities                                                                                                                             | 188,435          | 129,653          |
| Revolving credit loan                                                                                                                                 | 33,542           | 15,117           |
| Other long-term debt                                                                                                                                  | 3,395            | 5,537            |
| Capital lease obligations                                                                                                                             | 2,163            | 2,503            |
| Deferred income taxes                                                                                                                                 | 1,584            | —                |
| Other long-term liabilities                                                                                                                           | 1,952            | 4,376            |
| Total liabilities                                                                                                                                     | 231,071          | 157,186          |
| Commitments and contingencies                                                                                                                         |                  |                  |
| Stockholders' equity:                                                                                                                                 |                  |                  |
| Preferred Stock, 40,000 shares authorized; \$1.00 par value; no shares issued                                                                         | —                | —                |
| Common stock, 100,000,000 shares authorized; \$.008 par value; 18,232,954 and 17,787,362 shares issued and outstanding in 2002 and 2001, respectively | 146              | 142              |
| Additional paid-in capital                                                                                                                            | 52,174           | 44,845           |
| Retained earnings                                                                                                                                     | 176,501          | 137,731          |
| Accumulated other comprehensive loss, net                                                                                                             | (973)            | (1,422)          |
| Total stockholders' equity                                                                                                                            | 227,848          | 181,296          |
| Total liabilities and stockholders' equity                                                                                                            | \$458,919        | \$338,482        |

The accompanying notes are an integral part of this statement.

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**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
*(in thousands, except share amounts)*

|                                                                                | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Stockholders'<br>Equity |
|--------------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|--------------------------------------------------------|----------------------------------|
| Stockholders equity at January 1, 2002                                         | \$141           | \$42,597                         | \$ 95,567            | \$ —                                                   | \$138,305                        |
| Issuance of common stock under employee stock<br>purchase plan (46,842 shares) |                 | 341                              |                      |                                                        | 341                              |
| Net income                                                                     |                 |                                  | 16,390               |                                                        | 16,390                           |
| Stockholders' equity at December 30, 2000                                      | 141             | 42,938                           | 111,957              | —                                                      | 155,036                          |
| Issuance of common stock purchase plan (69,430 shares)                         |                 | 380                              |                      |                                                        | 380                              |
| Exercise of stock options (132,878 shares)                                     | 1               | 1,235                            |                      |                                                        | 1,235                            |
| Tax benefit on disqualifying disposition of stock options                      |                 | 292                              |                      |                                                        | 292                              |
| Unrealized loss on interest rate swap agreement, net of<br>income taxes        |                 |                                  |                      | (1,422)                                                | (1,422)                          |
| Net income                                                                     |                 |                                  | 25,774               |                                                        | 25,774                           |
| Stockholders' equity at December 29, 2001                                      | 142             | 44,845                           | 137,731              | (1,422)                                                | 181,296                          |
| Issuance of common stock under employee stock<br>purchase plan (35,687 shares) |                 | 639                              |                      |                                                        | 639                              |
| Exercise of stock options (409,905 shares)                                     | 4               | 4,192                            |                      |                                                        | 4,196                            |
| Tax benefit on disqualifying disposition of stock options                      |                 | 2,489                            |                      |                                                        | 2,489                            |
| Unrealized gain on interest rate swap agreement, net of<br>income taxes        |                 |                                  |                      | 449                                                    | 449                              |
| Net income                                                                     |                 |                                  | 38,770               |                                                        | 38,770                           |
| Stockholders' equity at December 28, 2002                                      | \$146           | \$52,174                         | \$176,501            | \$ (973)                                               | \$227,848                        |

*The accompanying notes are an integral part of this statement.*



# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

|                                                                                   | For the fiscal year ended |                  |                  |
|-----------------------------------------------------------------------------------|---------------------------|------------------|------------------|
|                                                                                   | Dec. 28,<br>2002          | Dec. 29,<br>2001 | Dec. 30,<br>2000 |
| Cash flows from operating activities:                                             |                           |                  |                  |
| Net income                                                                        | \$ 38,770                 | \$ 25,774        | \$ 16,390        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                  |                  |
| Depreciation and amortization                                                     | 16,457                    | 11,254           | 9,889            |
| Gain on disposition of property and equipment                                     | (1,081)                   | (60)             | (241)            |
| Asset impairment related to closed stores                                         | 558                       | —                | —                |
| Gain on proceeds from life insurance                                              | —                         | (2,173)          | —                |
| Deferred income taxes                                                             | (3,932)                   | (4,765)          | (3,258)          |
| Tax benefit of stock options exercised                                            | 2,498                     | 292              | —                |
| Change in assets and liabilities:                                                 |                           |                  |                  |
| Accounts receivable                                                               | 2,109                     | 592              | 337              |
| Inventories                                                                       | (67,274)                  | 556              | (15,210)         |
| Prepaid expenses and other current assets                                         | 343                       | (6,095)          | (4,280)          |
| Accounts payable                                                                  | 33,877                    | 10,680           | 10,530           |
| Accrued expenses                                                                  | 23,359                    | 9,014            | (108)            |
| Income taxes currently payable                                                    | (10)                      | 1,468            | (2,492)          |
| Other                                                                             | 983                       | 560              | (1,384)          |
| Net cash provided by operating activities                                         | 46,657                    | 47,097           | 10,173           |
| Cash flows from investing activities:                                             |                           |                  |                  |
| Capital expenditures                                                              | (66,544)                  | (13,569)         | (17,358)         |
| Proceeds from sale of property and equipment                                      | 3,924                     | 1,376            | 634              |
| Liquidation of life insurance policies                                            | —                         | 1,499            | —                |
| Net cash used in investing activities                                             | (62,620)                  | (10,694)         | (16,724)         |
| Cash flows from financing activities:                                             |                           |                  |                  |
| Borrowings under revolving credit agreement                                       | 539,915                   | 274,674          | 331,004          |
| Repayments under revolving credit agreement                                       | (521,490)                 | (309,564)        | (319,123)        |
| Repayment of long term debt                                                       | (2,142)                   | (5,597)          | (3,049)          |
| Principal payments under capital lease obligations                                | (309)                     | (279)            | (468)            |
| Net proceeds from life insurance death benefit                                    | —                         | 2,529            | —                |
| Net proceeds from issuance of common stock                                        | 4,835                     | 1,616            | 341              |
| Net cash provided by (used in) financing activities                               | 20,809                    | (36,621)         | 8,705            |
| Net increase (decrease) in cash                                                   | 4,846                     | (218)            | 2,154            |
| Cash and cash equivalents at beginning of year                                    | 8,927                     | 9,145            | 6,991            |
| Cash and cash equivalents at end of year                                          | \$ 13,773                 | \$ 8,927         | \$ 9,145         |
| <b>Supplemental disclosures of cash flow information:</b>                         |                           |                  |                  |
| Cash paid during the year for:                                                    |                           |                  |                  |
| Interest                                                                          | \$ 3,789                  | \$ 4,338         | \$ 6,423         |
| Income taxes                                                                      | 23,774                    | 13,770           | 16,324           |

The accompanying notes are an integral part of this statement.



## Notes to Consolidated Financial Statements

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### NOTE 1 — SIGNIFICANT ACCOUNTING POLICIES:

#### *Nature of Business*

The Company is the largest operator of retail farm and ranch stores in the United States. The Company is focused on supplying the lifestyle needs of recreational farmers and ranchers and serving the maintenance needs of those who enjoy the rural lifestyle, as well as tradesmen and small businesses. Stores are located in towns outlying major metropolitan markets and in rural communities. The Company operated 433 retail farm stores in 30 states as of December 28, 2002.

#### *Fiscal Year*

The Company's fiscal year ends on the Saturday closest to December 31.

#### *Principles of Consolidation*

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

#### *Management Estimates*

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

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

##### *Inventory Valuation*

The Company identifies potentially excess and slow-moving inventory by evaluating turn rates and overall inventory levels. Excess quantities are identified through the application of benchmark turn targets and historical sales experience. Further, exposure to inadequate realization of carrying value is identified through analysis of gross margin achievement and markdown experience, in combination with all merchandising initiatives. The estimated reserve is based on management's current knowledge with respect to inventory levels, sales trends and historical experience relating to the sale of the excess and/or slow-moving inventory. Management does not believe the Company's merchandise inventories are subject to significant risk of obsolescence in the near-term, and management has the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns could result in the need for additional reserves.

##### *Inventory Shrinkage*

The Company estimates its expected shrinkage of inventory between physical inventory counts 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.

##### *Sales Returns*

The Company generally honors customer refunds within 30 days of the original purchase, with the supporting receipt. The Company estimates its reserve for likely customer returns based on the average refund experience in relation to sales for the related period. Due to the seasonality of the Company's sales, the refund experience can vary, depending on the fiscal quarter of measurement.

##### *Self-insurance*

The Company is self-insured for certain losses relating to workers' compensation, medical and general liability claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates of the aggregate liability for uninsured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Although management believes it has the ability to adequately record estimated losses related to claims, it is possible that actual results could significantly differ from recorded self-insurance liabilities.



Notes to Consolidated Financial Statements

Revenue Recognition

The Company recognizes revenue when sales transactions occur and customers take possession of the merchandise. A provision for anticipated merchandise returns is provided in the period during which the related sales are recorded.

Store Pre-opening Costs

Non-capital expenditures incurred in connection with start-up activities, including organizational costs, are expensed as incurred.

Store Closing Costs

The Company has recognized store-closing costs (primarily remaining lease obligations and disposals of property and equipment) at the time the plan for the related store closing or relocation was finalized. Beginning in fiscal 2003, the Company will recognize such costs at the time of the actual closing or relocation, in accordance with the new requirements of Statement of Financial Accounting Standards No. 146 ("SFAS 146") (Note 17).

Cash and Cash Equivalents

The Company considers temporary cash investments, with a maturity of three months or less when purchased, to be cash equivalents.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term trade receivables and payables and long-term debt instruments, including capital leases. The carrying values of cash and cash equivalents, trade receivables and trade payables equal current fair value. The terms of the Company's revolving credit agreement and term loan agreement include variable interest rates, which approximate current market rates.

Derivative Instruments and Hedging Activities

The Company complies with SFAS Nos. 133, 137, and 138 (collectively "SFAS 133") pertaining to the accounting for derivatives and hedging activities. SFAS 133 requires the Company to recognize all derivative instruments in the balance sheet at fair value. SFAS 133 impacts the accounting for the Company's interest rate swap agreement, which is designated as a cash flow hedge.

Inventories

The value of the Company's inventories was determined using the lower of last-in, first-out (LIFO) cost or market. Inventories are not in excess of market value. Quarterly inventory determinations under LIFO are based on assumptions as to projected inventory levels at the end of the fiscal year, sales for the year and the rate of inflation/deflation for the year. If the first-in, first-out (FIFO) method of accounting for inventory had been used, inventories would have been approximately \$5,267,000 and \$6,631,000 higher than reported at December 28, 2002 and December 29, 2001, respectively.

Freight Costs

The Company incurs various types of transportation and delivery costs in connection with inventory purchases and distribution. Such costs are included as a component of the overall cost of merchandise.

Property and Equipment

Property and equipment are carried at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Improvements to leased premises are amortized using the straight-line method over the life of the lease or the useful life of the improvement, whichever is shorter. The following estimated useful lives are generally applied:

|                                   | Life          |
|-----------------------------------|---------------|
| Buildings                         | 30 — 35 years |
| Leasehold improvements            | 5 — 15 years  |
| Furniture, fixtures and equipment | 5 — 10 years  |
| Computer software                 | 3 — 5 years   |





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## Notes to Consolidated Financial Statements

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### ***Impairment of Long-Lived Assets***

The Company complies with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" in the recognition of asset impairment. Accordingly, the Company reviews long-lived assets for impairment when circumstances indicate the carrying amount of the asset may not be recoverable. Impairment is recognized on assets classified as held and used when the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. Impairment on long-lived assets to be disposed of is recognized by writing down the related assets to their fair value (less costs to sell, as appropriate), when the criteria have been met for the asset to be classified as held for sale or disposal.

### ***Advertising Costs***

Advertising costs consist of expenses incurred in connection with newspaper circulars, television and radio, as well as direct mail, newspaper advertisements and other promotions. Expenses incurred are charged to operations at the time the related advertising first takes place. Advertising expenses net of vendor-provided funding for fiscal 2002, 2001 and 2000 were approximately \$363,000, \$5,012,000 and \$8,063,000, respectively.

In the first quarter of fiscal 2003, the Company will adopt the provisions of the Emerging Issues Task Force ("EITF") Issue No. 02-16 ("EITF 02-16"), "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor." Upon adoption, vendor-provided funding will be recognized as a reduction of cost of sales as the related vendor's purchased inventory is sold. The Company will implement the recognition requirements of this issue on a prospective basis in the first quarter of fiscal 2003 and has not yet determined the impact that adoption will have on its fiscal year-end 2003 financial position or results of operations. Adoption of this requirement will have no impact on cash flows.

### ***Income Taxes***

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

### ***Excess of Fair Value of Assets Acquired Over Cost***

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 142, "Goodwill and Other Intangible Assets." Under SFAS 142, goodwill amortization ceases when the new standard is adopted. The new rule also requires an initial goodwill impairment assessment in the year of adoption and annual impairment tests thereafter. The Company adopted this Statement in fiscal 2002, as required. At December 29, 2001, the Company had unamortized negative goodwill of \$175,000 which was released into income in the first quarter of fiscal 2002.

### ***Stock-based Compensation Plans***

As permitted by SFAS 123, "Accounting for Stock-Based Compensation," the Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees." Under APB No. 25, compensation expense would be recorded if the current market price of the underlying stock on the date of grant exceeded the exercise price. The Company has adopted the disclosure requirements of SFAS 123 and SFAS 148.

### ***Net Income Per Share***

The Company presents both basic and diluted earning per share ("EPS") on the face of the income statement. As provided by SFAS 128, basic EPS is calculated as income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted EPS is calculated using the treasury stock method for options and warrants. All earnings per share data included in the consolidated financial statements and notes thereto have been restated to give effect to a two-for-one stock split (Note 9).

### ***Reclassifications***

Certain amounts in previously issued financial statements were reclassified to conform to fiscal 2002 presentations.



## Notes to Consolidated Financial Statements

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### NOTE 2 — SIGNIFICANT ASSET PURCHASE:

On December 31, 2001, the Company, through a joint venture with Great American Group, Gordon Brothers Retail Partners, LLC and DJM Asset Management LLC, was the successful bidder at a liquidation bankruptcy auction for the buildings, improvements, fixtures and lease rights of certain retail stores formerly operated by Quality Stores, Inc., a debtor and debtor in possession under Chapter 11 of the United States Bankruptcy Code. The Company's share of the bid totaled \$34.0 million and was funded entirely through the Senior Credit Facility.

Under its agreement with the other joint venture partners, the Company acquired the buildings for 24 retail stores, assumed the building lease rights for 76 additional retail stores and acquired the related equipment, furniture and fixtures. The liquidation of the existing inventory by other members of the joint venture was completed in late February 2002, with the Company having conducted hiring, training, refurbishment and merchandising efforts throughout the first fiscal quarter. The transition of these locations, which was completed in the third quarter of fiscal 2002, included the opening of new stores as well as the relocation of existing stores into the newly acquired properties.

The Company intends to sell three excess buildings acquired in the purchase and is actively marketing these locations. The sale of these locations is expected within twelve months. The assigned value for these three locations is included as assets held for sale in the accompanying consolidated balance sheet at December 28, 2002 (Note 3).

### NOTE 3 — ASSETS HELD FOR SALE:

Assets held for sale consists of certain buildings and properties that the Company either acquired through the significant asset purchase as described in Note 2 or that the Company vacated upon relocation of a store.

The Company applies the provisions of SFAS 144 to assets held for sale. SFAS 144 requires assets held for sale to be valued on an asset-by-asset basis at the lower of carrying amount or fair value less costs to sell. In applying these provisions, recent appraisals, valuations, offers and bids are considered. The Company recorded an impairment charge of \$558,000 in 2002 to adjust the carrying value of certain property and equipment related to vacated stores to fair value, less costs to sell. In addition, in December 2002, the Company decided to retain an asset previously classified as an asset held for sale as the Company believes the geographic location of the property is favorable. The asset (approximately \$1.7 million) was reclassified from assets held for sale to property and equipment.

The buildings and properties held for sale are separately presented as assets held for sale in the accompanying consolidated balance sheets. The assets are classified as current, as the Company believes they will be sold within the next twelve months and have met all the criteria for classification as held for sale pursuant to SFAS 144.

### NOTE 4 — SENIOR CREDIT FACILITY:

In November 2000, the Company entered into a three-year unsecured senior revolving credit facility with Bank of America, N.A., as agent for a lender group (the "Senior Credit Facility"), whereby the Company was permitted to borrow up to \$125.0 million. In October 2001, the Company extended its Senior Credit Facility by one year, thus extending the maturity to November 2004.

In August 2002, the Company entered into a replacement unsecured senior revolving credit facility with Bank of America, N.A. as agent for a lender group, expanding the maximum available borrowing from \$125.0 million to \$155.0 million, extending the maturity to February 2006 and increasing the number of participating banks from seven to ten. Of the total \$155.0 million commitment at December 28, 2002, \$3.9 million has been utilized for the issuance of letters of credit relating to insurance policies and import merchandise. The outstanding borrowings under this Senior Credit Facility totaled \$33.5 million at December 28, 2002 and \$15.1 million at December 29, 2001. The balance of funds available under the Senior Credit Facility may be utilized for borrowings and up to \$46.1 million for additional letters of credit. The Senior Credit Facility bears interest at either the bank's prime rate (4.25% at December 28, 2002) or the London Inter-Bank Offer Rate ("LIBOR") (1.42% at December 28, 2002) plus an additional amount ranging from .75% to 1.5% per annum, adjusted quarterly based on Company performance (1.00% at December 28, 2002). The Company is also required to pay, quarterly in arrears, a commitment fee ranging from 0.20% to 0.35% per annum, adjusted quarterly based on Company performance, on the average daily unused portion





## Notes to Consolidated Financial Statements

of the credit line. There are no compensating balance requirements associated with the Senior Credit Facility.

The Senior Credit Facility contains certain restrictions regarding additional indebtedness; capital expenditures; business operations; guarantees; investments; mergers; consolidations and sales of assets; transactions with subsidiaries or affiliates; and liens. In addition, the Company must comply with certain quarterly restrictions (based on a rolling four-quarters basis) regarding net worth, leverage ratio, fixed charge coverage and current ratio requirements. The Company was in compliance with all covenants at December 28, 2002.

The Company had letters of credit outstanding totaling \$3.9 million at both December 28, 2002 and December 29, 2001. These letters of credit were issued primarily for the purchase of inventory.

### NOTE 5 — OTHER LONG-TERM DEBT:

In June 1998, the Company entered into a new loan agreement (the “Loan Agreement”) and term note (the “Term Note”) pursuant to which the Company borrowed \$15 million. Until amended as discussed below, the Term Note carried interest at the rate of 6.75% per annum until its maturity in June 2005. The Term Note requires monthly payments equal to \$178,572, plus accrued interest, through June 2005. There are no compensating balance requirements associated with the Loan Agreement. The Loan Agreement is unsecured. In November 2000, in connection with the closing of the Senior Credit Facility, the Company amended the Loan Agreement and Term Note to provide that the existing indebtedness both matures and bears interest under the same provision as that in the Senior Credit Facility and the restrictive covenants were modified to be the same as those in the Senior Credit Facility (Note 4).

In August 2002, in connection with the replacement of the Senior Credit Facility, the Company amended the Loan Agreement and Term Note. The terms of the agreement were amended to provide that the existing indebtedness would bear interest under the same provisions as that in the Senior Credit Facility and the restrictive covenants would be modified to be the same as those in the senior revolving credit facility (Note 4). The maturity date of the Loan Agreement and Term Note remained June 2005. The Company was in compliance with all covenants at December 28, 2002. Under the Loan Agreement and Term Note, the Company had \$5.5 million outstanding at December 28, 2002 and \$7.7 million outstanding at December 29, 2001, of which \$2.1 million was classified as current in both years.

Future maturities of long-term debt, including long-term amounts under the Senior Credit Facility, as of December 28, 2002 are as follows:

|      |                 |
|------|-----------------|
| 2003 | \$ 2,142        |
| 2004 | 2,142           |
| 2005 | 1,253           |
| 2006 | 33,542          |
|      | <u>\$39,079</u> |

In April 1988, the Company issued notes (the “Mortgage Notes”) pursuant to a Note Agreement, which was amended in April 1991, February 1992 and July 1993 (the “Mortgage Loan Agreement”). The Mortgage Notes bore interest at a minimum 10.32% rate until their scheduled maturity in January 2004. The Mortgage Notes required monthly payments, including interest, of approximately \$109,000 through January 2004. As of December 30, 2000 the Mortgage Notes remaining balance was approximately \$3,456,000 of which \$1,004,000 was included in current maturities of long-term debt. In August 2001, the Company prepaid the remaining outstanding balance on the Mortgage Notes.

### NOTE 6 — LEASES:

The Company leases the majority of its office and warehouse/distribution space, most of its retail store locations, transportation equipment and other equipment under various noncancelable operating leases. The leases have varying terms and expire at various dates through February 2029. The store leases typically have initial terms of between 10 and 15 years, with one to three renewal periods of five years each, exercisable at the Company’s option. Generally, most of the leases require the Company to pay taxes, insurance and maintenance costs.

Total rent expense for fiscal 2002, 2001 and 2000 was approximately \$51,952,000, \$36,733,000 and \$31,620,000, respectively.



## Notes to Consolidated Financial Statements

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

|                                              | Capital<br>Leases | Operating<br>Leases |
|----------------------------------------------|-------------------|---------------------|
| 2003                                         | \$ 579            | \$ 43,101           |
| 2004                                         | 536               | 40,161              |
| 2005                                         | 497               | 37,490              |
| 2006                                         | 166               | 34,215              |
| 2007                                         | 166               | 31,035              |
| Thereafter                                   | 3,525             | 159,834             |
| Total minimum lease payments                 | 5,469             | \$345,836           |
| Amount representing interest                 | (2,966)           |                     |
| Present values of net minimum lease payments | 2,503             |                     |
| Less: current portion                        | (340)             |                     |
| Long-term capital lease obligations          | \$ 2,163          |                     |

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

|                                | Dec. 28,<br>2002 | Dec. 29,<br>2001 |
|--------------------------------|------------------|------------------|
| Building and improvements      | \$ 3,756         | \$ 3,756         |
| Less: accumulated depreciation | (2,051)          | (1,889)          |
|                                | \$ 1,705         | \$ 1,867         |

### NOTE 7 — DERIVATIVE FINANCIAL INSTRUMENTS:

The Company has entered into an interest rate swap agreement as a means of managing its interest rate exposure. This agreement has the effect of converting certain of the Company's variable rate obligations to fixed rate obligations.

The Company complies with SFAS 133 and recognizes the fair value of the interest rate swap in its consolidated balance sheet. The Company regularly adjusts the carrying value of the interest rate swap to reflect its current fair value. The related gain or loss on the swap is deferred in stockholders' equity (as a component of comprehensive income) to the extent that the swap was an effective hedge. The deferred gain or loss is recognized in income in the period in which the related interest rate payments being hedged have been recognized as an expense. However, to the extent that the change in value of an interest rate swap contract does not perfectly offset the change in the interest rate payments being hedged, the ineffective portion is immediately recognized as an expense. Net amounts paid or received are reflected as adjustments to interest expense.

The Company expects to recognize income of approximately \$100,000 on interest rate swaps from accumulated other comprehensive loss to earnings over the next ten months.

### NOTE 8 — INCOME TAXES:

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

|                       | 2002     | 2001     | 2000     |
|-----------------------|----------|----------|----------|
| Current tax expense:  |          |          |          |
| Federal               | \$23,536 | \$13,159 | \$11,200 |
| State                 | 2,359    | 2,358    | 3,264    |
| Total current         | 25,895   | 15,517   | 14,464   |
| Deferred tax benefit: |          |          |          |
| Federal               | (3,188)  | (4,154)  | (2,337)  |
| State                 | (744)    | (611)    | (921)    |

|                 |          |          |          |
|-----------------|----------|----------|----------|
| Total deferred  | (3,932)  | (4,765)  | (3,258)  |
| Total provision | \$21,963 | \$10,752 | \$11,206 |



## Notes to Consolidated Financial Statements

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

|                                                   | Dec. 28,<br>2002  | Dec. 29,<br>2001 |
|---------------------------------------------------|-------------------|------------------|
| Current tax assets:                               |                   |                  |
| Inventory valuation                               | \$ 4,174          | \$ 3,857         |
| Interest rate swap                                | 603               | —                |
| Accrued employee benefit costs                    | 3,051             | 1,301            |
| Other                                             | 2,538             | 1,921            |
|                                                   | <u>11,366</u>     | <u>7,079</u>     |
| Current tax liabilities:                          |                   |                  |
| Inventory basis difference                        | (3,504)           | (6,557)          |
| Other                                             | (78)              | (696)            |
|                                                   | <u>(3,582)</u>    | <u>(7,253)</u>   |
| Net current tax asset (liability)                 | <u>\$ 7,784</u>   | <u>\$ (174)</u>  |
| Non-current tax assets:                           |                   |                  |
| Capital lease obligation basis difference         | \$ 1,181          | \$ 1,206         |
| Fixed assets basis difference                     | —                 | 904              |
| Interest rate swap                                | —                 | 902              |
| Rent expenses in excess of cash payments required | 2,824             | 2,188            |
| Other                                             | 606               | 638              |
|                                                   | <u>4,611</u>      | <u>5,838</u>     |
| Non-current tax liabilities:                      |                   |                  |
| Depreciation                                      | (5,330)           | (2,345)          |
| Capital lease assets basis difference             | (731)             | (752)            |
| Other                                             | (134)             | —                |
|                                                   | <u>(6,195)</u>    | <u>(3,097)</u>   |
| Net non-current tax asset (liability)             | <u>\$ (1,584)</u> | <u>\$ 2,741</u>  |

Management has evaluated the need for a valuation allowance for all or a portion of the deferred tax assets and believes that all of the deferred tax assets will more likely than not be realized through the future earnings of the Company.

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

|                                                | 2002            | 2001            | 2000            |
|------------------------------------------------|-----------------|-----------------|-----------------|
| Tax provision at statutory rate                | \$21,257        | \$12,784        | \$ 9,659        |
| Tax effect of:                                 |                 |                 |                 |
| State income taxes, net of federal tax benefit | 634             | 1,369           | 1,577           |
| Life insurance proceeds                        | —               | (926)           | —               |
| Previously accrued income taxes                | —               | (2,500)         | —               |
| Amortization of negative goodwill              | (61)            | (63)            | (73)            |
| Other                                          | 133             | 88              | 43              |
|                                                | <u>\$21,963</u> | <u>\$10,752</u> | <u>\$11,206</u> |





## Notes to Consolidated Financial Statements

The Company reevaluated its tax exposure during the quarter ended December 29, 2001 and, as a result of the favorable resolution of certain tax issues, along with the closing of open tax years, the Company reduced previously accrued income tax liabilities by \$2.5 million.

### NOTE 9 — CAPITAL STOCK:

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

On July 18, 2002, the Company's Board of Directors approved a two-for-one split of the Company's common stock. As a result, stockholders received one additional share on August 19, 2002 for each share held as of the record date of August 2, 2002. The par value of the Company's common stock remains \$0.008. All share and per share data included in the consolidated financial statements and notes thereto has been restated to give effect to the stock split.

### NOTE 10 — COMPREHENSIVE INCOME:

Comprehensive income includes the change in the fair value of the Company's interest rate swap agreement (expiring in November 2003), which qualifies for hedge accounting. Comprehensive income for each fiscal year is as follows (in thousands):

|                                                                                                                                              | 2002     | 2001     |
|----------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Net income — as reported                                                                                                                     | \$38,770 | \$25,774 |
| Unrealized gain (loss) on interest rate swap agreement, net of tax effect of \$299 provision and \$902 credit in 2002 and 2001, respectively | 449      | (1,422)* |
| Comprehensive income                                                                                                                         | \$39,219 | \$24,352 |

\* Reflects cumulative effect upon initial adoption.

### NOTE 11 — NET INCOME PER SHARE:

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

|                                     | 2002     |        |                  |
|-------------------------------------|----------|--------|------------------|
|                                     | Income   | Shares | Per Share Amount |
| <b>Basic net income per share:</b>  |          |        |                  |
| Net income                          | \$38,770 | 18,056 | \$2.15           |
| Dilutive stock options outstanding  |          | 1,582  |                  |
| <b>Diluted net income per share</b> | \$38,770 | 19,638 | \$1.97           |
|                                     |          |        |                  |
|                                     | 2001     |        |                  |
|                                     | Income   | Shares | Per Share Amount |
| <b>Basic net income per share:</b>  |          |        |                  |
| Net income                          | \$25,774 | 17,648 | \$1.46           |
| Dilutive stock options outstanding  |          | 433    |                  |
| <b>Diluted net income per share</b> | \$25,774 | 18,081 | \$1.43           |

|                                            |                 |               |               |
|--------------------------------------------|-----------------|---------------|---------------|
| <b><i>Basic net income per share:</i></b>  |                 |               |               |
| Net income                                 | \$16,390        | 17,564        | \$0.93        |
| Dilutive stock options outstanding         |                 | —             |               |
| <b><i>Diluted net income per share</i></b> | <b>\$16,390</b> | <b>17,564</b> | <b>\$0.93</b> |



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## Notes to Consolidated Financial Statements

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Anti-dilutive stock options excluded from the above calculations totaled 609,328 and 1,723,076 in 2001 and 2000, respectively. There were no anti-dilutive stock options excluded from the calculations for fiscal 2002.

### NOTE 12 — RELATED PARTY TRANSACTIONS:

In 1986, the Company entered into capitalized sale-leaseback transactions with certain officers and directors of the Company for three of its stores. The Company sold, leased back and provided the financing for these properties at estimated fair values. The related gains arising from the sale of these properties have been deferred and are being amortized on a straight-line basis over the terms of the related leases. Properties under capital leases acquired through sale-leaseback transactions have been reduced by the related deferred gains on the properties and are classified with property and equipment. The leases have basic terms of 20 years with options to renew for two successive five-year terms. The Company has an option to purchase the leased properties after December 31, 1995. The officers and directors have repaid their outstanding obligations under these notes to the Company. In June 2000, the Company closed operations at one of these facilities. In December 2000, the Company paid \$200,000 to terminate the lease on that facility. The balance of the remaining two capitalized lease obligations, included in total capital lease obligations, was \$334,000 and \$423,000 at December 28, 2002 and December 29, 2001, respectively. Rent payments under these leases were approximately \$171,000 in fiscal 2002, 2001 and 2000.

Prior to fiscal 2001, the Company leased its management headquarters from a partnership in which certain stockholders of the Company are general partners. In December 2000, the management headquarters was sold to an unrelated third party. Rent payments made to related parties under this lease totaled \$385,000 in fiscal 2000.

### NOTE 13 — RETIREMENT BENEFIT PLANS:

The Company has a defined contribution benefit plan, the Tractor Supply Company Restated 401(k) Retirement Plan (the "Plan"), which provides retirement and other benefits for the Company's employees. Employees become eligible for participation at age 21 and upon completion of 12 consecutive months of employment and 1,000 or more hours of service. The Company matches (in cash) 100% of the employee's elective contributions up to 3% of the employee's compensation plus 50% of the employee's elective contributions from 3% to 6% of the employee's compensation. In no event shall the total Company match made on behalf of the employee exceed 4.5% of the employee's compensation. Effective in fiscal 2000, all current employer contributions are immediately 100% vested. Company contributions to the Plan during fiscal 2002, 2001 and 2000 were approximately \$1,397,000 (net of applied forfeitures of \$48,000), \$1,022,000 (net of applied forfeitures of \$98,000) and \$521,000 (net of applied forfeitures of \$677,000), respectively.

In fiscal 2002, the Company began offering, through a deferred compensation program, the opportunity for certain qualifying employees to elect a deferral of up to 40% of their annual base salary and up to 100% of their annual incentive under their respective incentive programs. To be eligible for the salary deferral, each participant must contribute the maximum amount of salary to the Company's 401(k) Plan subject to the Company's match. Under the deferred compensation program, the participants' salary deferral is matched by the Company, 100% on the first 3% of base salary contributed and 50% on the next 3% of base salary contributed. Each participant's account earns simple annual interest at the prime rate as in effect on January 1 each year. Each participant is fully vested in all amounts credited to their deferred compensation account. Payments under the program are made within 30 days following the earlier of the participant's (i) death, (ii) retirement, (iii) total and permanent disability, (iv) termination of employment with the Company or (v) some other date designated by the participant at the time of the initial deferral. Payments are made in cash and shall be paid in ten annual installments or in a single lump sum payment, at the election of the participant. The Company's contribution, including accrued interest, was \$93,000 for fiscal 2002.





## Notes to Consolidated Financial Statements

### NOTE 14 — STOCK-BASED COMPENSATION PLANS:

#### *Fixed Stock Option Plan*

The Company has stock option plans for officers, directors (including non-employee directors) and key employees which reserve 4,000,000 shares of common stock for future issuance. According to the terms of the plans, the per share exercise price of options granted shall not be less than the fair market value of the stock on the date of grant and such options will expire no later than ten years from the date of grant. In the case of a stockholder owning more than 10% of the outstanding voting stock of the Company, the exercise price of an incentive stock option may not be less than 110% of the fair market value of the stock on the date of grant and such options will expire no later than five years from the date of grant. Also, the aggregate fair market value of the stock with respect to which incentive stock options are exercisable on a tax deferred basis for the first time by an individual in any calendar year may not exceed \$100,000. Options granted prior to fiscal 2002 generally vest one-third each year beginning on the third anniversary date of the grant and expire after ten years, provided, however, that options granted to non-employee directors vest one-third each year beginning on the first anniversary of the grant. All options granted after fiscal 2001 vest one-third each year beginning on the first anniversary of the grant.

Plan activity is summarized as follows:

|                                  | Number of<br>Shares | Weighted Average<br>Exercise Price |
|----------------------------------|---------------------|------------------------------------|
| Outstanding at January 1, 2000   | 1,203,000           | \$10.57                            |
| Granted                          | 742,000             | \$ 7.06                            |
| Canceled                         | (271,334)           | \$ 9.51                            |
| Outstanding at December 30, 2000 | 1,673,666           | \$ 9.19                            |
| Exercised                        | (132,878)           | \$ 9.30                            |
| Granted                          | 792,000             | \$ 6.71                            |
| Canceled                         | (239,366)           | \$ 9.02                            |
| Outstanding at December 29, 2001 | 2,093,422           | \$ 8.26                            |
| Exercised                        | (409,905)           | \$10.25                            |
| Granted                          | 622,800             | \$18.22                            |
| Canceled                         | (36,000)            | \$11.53                            |
| Outstanding at December 28, 2002 | 2,270,317           | \$10.59                            |

The following table summarizes information concerning currently outstanding and exercisable options:

| Year | Range of<br>Exercise Prices | Number<br>Outstanding | Options Outstanding                                     |                                          |                        |
|------|-----------------------------|-----------------------|---------------------------------------------------------|------------------------------------------|------------------------|
|      |                             |                       | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Weighted<br>Average<br>Exercise<br>Price | Options<br>Exercisable |
| 1994 | \$10.75 - \$13.50           | 4,000                 | 1.36                                                    | \$12.13                                  | 4,000                  |
| 1995 | \$10.65 - \$11.06           | 4,000                 | 2.08                                                    | \$11.06                                  | 4,000                  |
| 1996 | \$10.69 - \$12.56           | 11,666                | 3.07                                                    | \$10.69                                  | 11,666                 |
| 1997 | \$ 8.87 - \$10.00           | 82,427                | 4.61                                                    | \$ 9.15                                  | 82,427                 |
| 1998 | \$ 7.22 - \$12.15           | 11,337                | 5.17                                                    | \$ 9.40                                  | 8,366                  |
| 1999 | \$12.90 - \$13.37           | 211,287               | 6.07                                                    | \$12.92                                  | 81,155                 |
| 2000 | \$ 7.47 - \$ 7.58           | 512,000               | 7.09                                                    | \$ 7.47                                  | 12,060                 |
| 2000 | \$ 4.48                     | 100,000               | 7.84                                                    | \$ 4.48                                  | —                      |
| 2001 | \$ 6.71                     | 725,600               | 8.08                                                    | \$ 6.71                                  | 5,280                  |
| 2002 | \$17.82 - \$19.60           | 601,000               | 8.24                                                    | \$18.11                                  | —                      |
| 2002 | \$ 28.44                    | 7,000                 | 9.55                                                    | \$28.44                                  | —                      |





## Notes to Consolidated Financial Statements

Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed by SFAS 123, the Company's pro forma net income and net income per share, for fiscal 2002, 2001 and 2000, would have been as follows (in thousands, except per share amounts):

|                                            | 2002     | 2001     | 2000     |
|--------------------------------------------|----------|----------|----------|
| Net income — As reported                   | \$38,770 | \$25,774 | \$16,390 |
| Pro forma compensation expense, net of tax | (1,836)  | (922)    | (723)    |
| Net income — Pro forma                     | \$36,934 | \$24,852 | \$15,667 |
| Net income per share — basic:              |          |          |          |
| As reported                                | \$ 2.15  | \$ 1.46  | \$ 0.93  |
| Pro forma                                  | \$ 2.05  | \$ 1.41  | \$ 0.89  |
| Net income per share — diluted:            |          |          |          |
| As reported                                | \$ 1.97  | \$ 1.43  | \$ 0.93  |
| Pro forma                                  | \$ 1.88  | \$ 1.38  | \$ 0.89  |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions.

|                               | 2002   | 2001   | 2000   |
|-------------------------------|--------|--------|--------|
| Expected volatility           | 43.6%  | 43.8%  | 39.8%  |
| Risk-free interest rate       | 5.0%   | 5.1%   | 5.5%   |
| Average expected life (years) | 7.1    | 7.5    | 7.25   |
| Dividend yield                | 0%     | 0%     | 0%     |
| Weighted average fair value   | \$9.74 | \$3.71 | \$3.55 |

### ***Employee Stock Purchase Plan***

The Company provides an Associate Stock Purchase Plan (the "ASPP") whereby eligible employees of the Company have the opportunity to purchase, through payroll deductions, shares of common stock of the Company at a 15% discount. Pursuant to the terms of the ASPP, the Company issued 35,687, 69,430 and 46,842 shares of common stock in fiscal 2002, 2001 and 2000, respectively.

### **NOTE 15 — GAIN ON PROCEEDS FROM LIFE INSURANCE:**

In April 2001, a former executive of the Company, on whom the Company carried a life insurance policy, passed away. As a result of the related coverage, the Company realized a \$2.2 million gain on the life insurance proceeds.

### **NOTE 16 — CONTINGENCIES:**

#### ***Litigation***

The Company is involved in various litigation arising in the ordinary course of business. After consultation with legal counsel, management expects these matters will be resolved without material adverse effect on the Company's consolidated financial position or results of operations. Any estimated loss has been adequately provided in accrued liabilities to the extent probable and reasonably estimable. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

#### ***Environmental Matters***

In connection with certain contaminated leased properties that the Company relocated from in 2002, the Company has agreed to indemnify property owners with respect to environmental liabilities associated with the use of those properties, as defined in the related lease agreements. During fiscal 2002, the Company has not paid or accrued material



## Notes to Consolidated Financial Statements

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amounts related to these properties. Because of the uncertainties associated with environmental assessment and remediation activities, the Company's future expenses to remediate the currently identified sites could be higher than amounts accrued. Future expenditures for environmental remediation may be affected in the near-term by identification of additional contaminated sites, the level and type of contamination found and the extent and nature of cleanup activities required.

### NOTE 17 — RECENTLY ISSUED ACCOUNTING STANDARDS:

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections," which required gains and losses from extinguishment of debt to no longer be classified as extraordinary items net of related income tax effect. SFAS 145 requires that extinguishment gains or losses be classified as ordinary gains or losses and that all such gains or losses in prior periods be reclassified to ordinary gain or loss in comparative financial statements. SFAS 145, which applies to all entities, is effective for fiscal years beginning after May 15, 2002. The Company expects that the adoption of SFAS 145 during fiscal 2003 will have no impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," requiring that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146, which applies to all entities, is effective for exit or disposal activities that are initiated after December 31, 2002. The Company expects that the adoption of SFAS 146 during fiscal 2003 will not materially impact the Company's financial position or results of operations.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 02-16 ("EITF 02-16"), "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor." This issue involves the accounting and income statement classification for consideration given by a vendor to a retailer in connection with the sale of the vendor's products or for the promotion of sales of the vendor's products. The EITF concluded that such consideration received from vendors should be reflected as a decrease in prices paid for inventory and recognized in cost of sales as the related inventory is sold, unless specific criteria are met qualifying the consideration for treatment as reimbursement of specific, identifiable incremental costs. Prior to adopting this pronouncement, the Company classified all vendor-provided marketing support funds as a reduction in selling, general and administrative expenses. Upon adoption, these funds received from vendors will be recognized as a reduction of cost of sales as the related vendor's purchased inventory is sold. As clarified by the EITF in January 2003, this issue is effective for arrangements with vendors initiated on or after January 1, 2003. The Company will implement the recognition requirements of this issue in the first quarter of fiscal 2003 and has not yet determined the impact that adoption will have on its fiscal year-end 2003 financial position or results of operations. Adoption of this requirement will have no impact on cash flows.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation — Transition and Disclosure," which amends SFAS 123 "Accounting for Stock-Based Compensation." SFAS 148 provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. SFAS 148 is effective for financial statements issued for fiscal years ending after December 15, 2002, and interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company has elected to account for its stock-based compensation plans under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", as disclosed in Note 14 of Notes to Consolidated Financial Statements and does not utilize the fair value method. However, the Company has adopted the disclosure requirements of SFAS 123 and has adopted the additional disclosure requirements as specified in SFAS 148 in fiscal 2002.



## ★ BOARD OF DIRECTORS ★



SEATED, Left to Right: Pete Brad, Joe Scarlett, Jim Wright  
STANDING, Left to Right: Cynthia Jamison, Joe Rodgers, Sam Reed, Gerry Jones, Joe Maxwell, Tom Flood

**JOE SCARLETT**  
*Chairman of the Board  
Chief Executive Officer  
Tractor Supply Company*

**JIM WRIGHT**  
*President  
Chief Operating Officer  
Tractor Supply Company*

**PETE BRAUD** (1)\*(4)  
*Retired Chief Financial Officer  
Service Merchandise Company, Inc.  
President and Director, Braud  
Design/Build, Inc.*

**TOM FLOOD**  
*Retired Senior Vice President  
Tractor Supply Company*

**CYNTHIA JAMISON** (1)(2)\*(3)  
*Partner  
Tatum CFO Partners,LLP*

**GERRY JONES** (3)\*  
*Of Counsel to  
Shipman & Goodwin,LLP*

**JOE MAXWELL**  
*Retired Vice President  
Tractor Supply Company*

**SAM REED** (2)(3)(4)\*  
*Retired Vice Chairman and  
Director  
Kellogg Company*

**JOE RODGERS** (1)(2)(4)  
*Chairman of the Board  
The JMR Group  
Former U.S. Ambassador to France*

(1) AUDIT COMMITTEE    (2) COMPENSATION COMMITTEE    (3) NOMINATING COMMITTEE  
(4) CORPORATE GOVERNANCE COMMITTEE    \* Committee Chairperson

## ★ EXECUTIVE OFFICERS ★

**JOE SCARLETT**  
*Chairman of the Board  
Chief Executive Officer*

**JIM WRIGHT**  
*President  
Chief Operating Officer*

**JERRY BRASE**  
*Senior Vice President  
Merchandising*

**CAL MASSMANN**  
*Senior Vice President  
Chief Financial Officer*

**STAN RUTA**  
*Senior Vice President  
Store Operations*





# ★ SHAREHOLDER INFORMATION ★

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## **CORPORATE ADDRESS**

Tractor Supply Company  
320 Plus Park Blvd., Nashville, TN 37217  
615.366.4600



## **INTERNET ADDRESS**

[www.myTSCstore.com](http://www.myTSCstore.com)



## **TRANSFER AGENT AND REGISTRAR**

EquiServe Trust Company, N.A.  
Post Office Box 43010, Providence, RI 02940-3010



## **INDEPENDENT AUDITORS**

Ernst & Young LLP  
SunTrust Financial Center, Suite 1100  
424 Church St., Nashville, TN 37219-3302



## **STOCK EXCHANGE LISTING**

The Nasdaq National Market Ticker Symbol: TSCO



## **ANNUAL MEETING**

April 17, 2003 at 10:00 a.m.  
Tractor Supply Company Store Support Center  
320 Plus Park Blvd., Nashville, TN 37217



## **NUMBER OF STOCKHOLDERS**

As of January 31, 2003 there were approximately 100 stockholders of record. This number excludes an estimated 12,000 individual stockholders holding stock under nominee security position listings.



## **FORM 10-K**

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available on the Company website, and can be sent to any stockholder upon written request to the Company.



## **QUARTERLY STOCK PRICE RANGE\***

FISCAL 2002

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| HIGH       | LOW |
|------------|-----|
| ROA_004408 |     |

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SCDOR\_006929

|           |         |         |
|-----------|---------|---------|
| QUARTER 1 | \$23.30 | \$16.35 |
| QUARTER 2 | \$36.62 | \$22.80 |
| QUARTER 3 | \$36.10 | \$25.39 |
| QUARTER 4 | \$45.50 | \$28.10 |

**FISCAL 2001**

|           | <b>HIGH</b> | <b>LOW</b> |
|-----------|-------------|------------|
| QUARTER 1 | \$ 7.47     | \$4.25     |
| QUARTER 2 | \$ 8.23     | \$6.75     |
| QUARTER 3 | \$12.24     | \$7.40     |
| QUARTER 4 | \$17.49     | \$8.73     |

\* adjusted to reflect stock split





# ★ COMMUNITY ★

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OUT HERE, A CAN-DO ATTITUDE GOES A LONG WAY.



Tractor Supply Company believes giving back to the community is important. That's why we take the can-do attitude our customers value outside the store walls to share it with our community.

We have supported the Future Farmers of America (FFA) for 18 consecutive years by funding the organization and sponsoring events on both state and national levels. Supporting the National FFA Career Show and Convention allows Tractor Supply Company to reach the large and important audience of young people who are interested in agriculture and exposes the Company to potential new team members!

The Company's Store Support Center was a pacesetter this year with our goal and commitment to the United Way Fund. We began our campaign early and exceeded our goals in participation and donations. The number of pledges and total dollars contributed increased significantly over last year—our team member participation was 90%, a 27% increase, and our contribution total increased nearly 61%. Tractor Supply Company is proud to be recognized in the United Way's Circle of Honor, which distinguishes those companies with campaigns that embrace the spirit of the giving philosophy in many different areas. The greatest reward of all is in knowing that Tractor Supply Company has made a difference in our community.

In November 2002, Company team members volunteered their Saturday for a "Farm Clean-Up Day" at the *Saddle Up!* facility in the Nashville area. *Saddle Up!* is a United Way organization that provides a therapeutic horseback-riding program for physically and mentally challenged children. Over 35 Store Support Center team members pulled out their boots and gloves and spent the day painting a barn, mowing and trimming fields, cleaning out fence rows and even mucking stalls. A big pat on the back goes to everyone who volunteered to help!

Tractor Supply Company also sponsored the Cheekwood Botanical Garden Rare and Native Plant Auction in October 2002. Company banners and heavy duty wagons were used to promote our sponsorship. This weekend event was designed to attract hobby gardeners in the Nashville area and consisted of a garden tour, dinner, silent auction and a series of gardening workshops.

Each year, our stores participate in local charities and fund raising events within their areas. The 4-H Hog Roast and Car Show, FFA and 4-H Youth Fair, Fall Festival, Harvest Days, Horse Expo, Red Cross Blood Drives and the Annual Lock-up for the Muscular Dystrophy Association are just a few of the events our stores have hosted this past year. What a way to show our can-do attitude to the community!









TSC-AR-03





**CONSENT OF INDEPENDENT AUDITORS**

We consent to the incorporation by reference in: (1) this Annual Report (Form 10-K) of Tractor Supply Company; (2) the Registration Statement on Form S-8 (File No. 333-10699) and related Prospectus pertaining to the Tractor Supply Company 1996 Associate Stock Purchase Plan; and (3) the Registration Statement on Form S-3 (File No. 333-35317) and related Prospectus pertaining to the Tractor Supply Company Restated 401(k) Retirement Plan; and (4) the Registration Statement on Form S-8 (File No. 333-102768) and related Prospectus pertaining to the Tractor Supply Company 2000 Stock Incentive Plan, of our report dated January 21, 2003 with respect to the 2002 consolidated financial statements included in the 2002 Annual Report to Stockholders of Tractor Supply Company.

/s/Ernst & Young LLP  
Nashville, Tennessee  
March 13, 2003





**CONSENT OF INDEPENDENT ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-10699) of Tractor Supply Company of our report dated January 24, 2001 appearing on page 14 of in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP  
Nashville, Tennessee  
March 14, 2003



**CONSENT OF INDEPENDENT ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-35317) of Tractor Supply Company of our report dated January 24, 2001 appearing on page 14 of in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP  
Nashville, Tennessee  
March 14, 2003



**CONSENT OF INDEPENDENT ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-102768) of Tractor Supply Company of our report dated January 24, 2001 appearing on page 14 in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP  
Nashville, Tennessee  
March 14, 2003

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**MASTER SHARED SERVICES AGREEMENT**

**BETWEEN**

**TRACTOR SUPPLY COMPANY**

**AND**

**TRACTOR SUPPLY CO. OF MICHIGAN, LLC**

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Dated this 30<sup>th</sup> day of September, 2001,  
to be Effective the 30<sup>th</sup> day of September, 2001

## MASTER SHARED SERVICES AGREEMENT

This Master Shared Services Agreement (the "Agreement") is made and entered into as of this 30<sup>th</sup> day of September, 2001 by and between Tractor Supply Company ("TSC"), a Delaware corporation, and Tractor Supply Co. of Michigan, LLC ("TSC of Michigan"), a Michigan limited liability company.

### RECITALS

WHEREAS, TSC of Michigan is a wholly owned subsidiary of TSC; and

WHEREAS, TSC of Michigan has and will continue to have the need for personnel management and employment services, and TSC of Michigan has determined that it will not be cost effective to obtain and maintain the infrastructure associated therewith; and

WHEREAS, TSC is able and willing to provide personnel management and employment services to TSC of Michigan, and TSC of Michigan desires to engage TSC to provide such services, as an independent contractor, in accordance with the terms set forth herein.

NOW THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, in addition to other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, TSC and TSC of Michigan, hereinafter collectively referred to as "the Parties", hereby agree as follows:

### ARTICLE I MANAGEMENT AND EMPLOYMENT SERVICES

**Section 1.1. Description of Services.** During the term of this Agreement, TSC hereby agrees to provide personnel management and employment services, more specifically described below, hereinafter referred to as "the Services", to TSC of Michigan on a routine and daily basis, as specifically requested by authorized officers of TSC of Michigan and approved by authorized officers of TSC under the terms and conditions set forth herein, including but not limited to:

- a. **Retail Management.** TSC shall provide qualified and capable employees to TSC of Michigan as required for purposes of providing on-site management of TSC of Michigan's retail store operations.
- b. **Retail Sales.** TSC shall provide qualified and capable employees to TSC of Michigan for purposes of engaging customers in sales of products made available for sale by TSC of Michigan. Such employees shall handle inventory maintenance and management, pre-sales activities, solicitation activities, post sale instruction, and all other routine activities associated with the maintenance and enhancement of customer relations.

**Section 1.2. Performance of Services:** TSC of Michigan shall determine the facilities to be used in rendering the Services. TSC will have full responsibility for all of its employees who may be located at TSC of Michigan's facilities.

**Section 1.3. Services Standards and Policies.** TSC of Michigan, with regard to the minimum standards and service levels expected of the employees leased from TSC as provided hereunder, incorporates herein the terms, conditions and expectations set forth in the TSC Employee Handbook and Policies, as may be amended from time to time.

**Section 1.4. Direction and Control.** TSC shall maintain the exclusive right and duty to exercise direction and control over workers performing services for TSC of Michigan, such being consistent with TSC's Employee Handbook and Policies, as amended. All services performed by TSC's employees for TSC of Michigan will be performed for the exclusive benefit of TSC; appropriate expenses plus an appropriate mark-up, more specifically described in Article II contained herein, will be charged to TSC of Michigan for the services performed by such employees. All TSC personnel will report hours worked on the job, as well as expenses and appropriate correspondence directly to TSC.

**Section 1.5. Administration.**

- a. TSC shall provide, or engage a third party to provide, personnel, accounting, employee benefits administration, and other personnel and payroll related services, which may reasonably be requested by TSC of Michigan.



- b. TSC shall be responsible for all federal and state employment tax returns.

**Section 1.6. Disclaimer, Limitation of Liability.**

- a. TSC makes no express or implied representations, warranties or guarantees relating to the Services or the quality or results of the Services to be performed under this Agreement.
- b. TSC will use reasonable efforts to make the Services available with substantially the same degree of care as it employs in making the same Services available for its own operations; provided, however, that TSC shall not be liable to TSC of Michigan or any other person for any loss, damage or expense which may result therefrom or from any change in the manner in which TSC renders the Services, so long as TSC deems such change necessary or desirable in the conduct of its own operations.
- c. Employees of TSC who provide services to TSC of Michigan shall not be liable to TSC of Michigan or to any third party, including any governmental agency, for any claims, damages or expenses relating to the Services provided pursuant to this Agreement, and TSC shall have the ultimate responsibility for all Services provided herein.
- d. TSC shall not be liable to TSC of Michigan for the consequences of any failure or delay in performing any of TSC's obligations under this Agreement, other than for damages arising from TSC's gross negligence or willful or reckless misconduct; however, TSC shall, based on its actual knowledge thereof, provide reasonably prompt notice to TSC of Michigan of all such liabilities and the reasons therefor.
- e. TSC of Michigan shall indemnify and hold harmless any TSC employee who performs Services for TSC of Michigan pursuant to this Agreement to the same extent that TSC would indemnify such employee if the employee were to perform such services for TSC.

## ARTICLE II COMPENSATION

### Section 2.1. Compensation for Services.

- a. **Payments.** In consideration for the aforementioned Services performed on behalf of TSC of Michigan by TSC, TSC of Michigan shall pay to TSC a Services Fee, as specified in this section. Such payments shall be due monthly and shall be payable within thirty (30) days following receipt by TSC of Michigan of an invoice for each periodic amount.
- b. **Direct Fees.** The fee for all Services provided by TSC shall include all direct payroll expenses associated with the wages and compensation incurred by TSC. Such payroll expenses shall include wages and salaries, and all related payroll taxes and employee benefit administration expenses associated with the Services. TSC shall provide TSC of Michigan with monthly invoices supporting such costs.
- c. **Indirect Fees.** In addition to direct payroll expenses, TSC of Michigan agrees to pay an arm's length fee to reimburse TSC for all indirect expenses associated with the performance of services by TSC on behalf of TSC of Michigan (including those expenses commonly referred to as "corporate overhead") incurred by TSC. TSC agrees to maintain adequate records necessary to compile information required by TSC of Michigan to justify the allocation of indirect expenses to TSC of Michigan and shall provide TSC of Michigan with monthly invoices supporting such costs.
- d. **Mark-Up.** In addition to reimbursing TSC for all direct and indirect costs associated with the provision of Services, TSC of Michigan agrees to pay an additional mark-up equal to ten percent (10%) of the direct and indirect costs for which it is billed.
- e. **Variance Invoicing.** Within ninety (90) days of completion of TSC's audited year end financial statements, if TSC determines that the aggregate estimated services fee paid by TSC of Michigan either overstate or understate the proper amount, as determined by the year end audit, TSC shall invoice or credit, as the case may be, TSC of Michigan in the amount of such variance.

**Section 2.2. Records.** TSC shall keep accurate books and records with respect to the costs and expenses incurred in connection with the Services, and TSC of Michigan shall have the right to examine such books, accounts and records at any reasonable time or times for the purpose of verifying the payments required to be made by it hereunder.

### **ARTICLE III TERM**

**Section 3.1. Term.** This Agreement shall remain in effect for a period of one (1) year from the Effective Date and shall automatically renew at the end of such year, and each succeeding year, unless either party shall give written notice to the other of its intent not to renew at least thirty (30) days prior to the end of the term.

**Section 3.2. Termination.** TSC has the exclusive right to terminate this Agreement should TSC not have the ability to exercise direction and control over its employees.

### **ARTICLE IV OWNERSHIP OF PRODUCTS**

The Parties agree that all of TSC of Michigan's products, equipment and fixtures stored or located at the facilities or otherwise in possession of TSC or its servants, agents or employees remain the property of TSC of Michigan. The Parties agree that TSC and its employees may bring their own personal property into the facilities and that personal property will not be deemed to be that of TSC of Michigan hereunder.

### **ARTICLE V COVENANTS AND GENERAL PROVISIONS**

**Section 5.1. Notices.** All notices and other communications hereunder shall be in writing and shall be delivered by hand or mailed by registered or certified mail or transmitted by facsimile to the parties at their respective addresses and shall be deemed given on the date on which such notice is received.

**Section 5.2. Independent Contractor.** The employees provided by TSC shall be independent contractors and not employees of TSC of Michigan.

**Section 5.3. Force Majeure.** Neither party shall be in default of this Agreement or liable to the other party for any delay or default in performance where occasioned by any cause of any kind or extent beyond its control, including but not limited to, armed conflict or economic dislocation resulting therefrom; embargoes; shortages of labor, raw materials, production facilities or transportation; labor difficulties; civil disorders of any kind; action of any civil or military authorities (including priorities and allocations); fires; floods; and accidents. The dates on which the obligations of a party are to be fulfilled shall be extended for a period equal to the time lost by reason of any delay arising directly or indirectly from:

- a. Any of the foregoing causes, or
- b. Inability of that party, as a result of causes beyond its reasonable control, to obtain instruction or information from the other party in time to perform its obligations by such dates.

**Section 5.4. Entire Agreement.** This Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof and all prior agreements or understandings shall be deemed merged herein. No representations, warranties and certifications, express or implied, shall exist as between the parties except as stated herein.

**Section 5.5. Amendments.** No amendments, waivers or modifications hereof shall be made or deemed to have been made unless in writing executed by the party to be bound thereby.

**Section 5.6. Severability.** If any provision in this Agreement or the application of such provision to any person or circumstance shall be invalid, illegal or unenforceable, the remainder of this Agreement or the application of such provision to persons or circumstances other than those to which it is held invalid, illegal or unenforceable shall not be affected thereby.

**Section 5.7. Counterparts.** This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of

which when taken together shall constitute this Agreement.

**Section 5.8. Successors and Assigns.** This Agreement shall not be assignable, in whole or in part, directly or indirectly, by any party hereto without the prior written consent of the other party hereto, and any attempt to assign any rights or obligations arising under this Agreement without such consent shall be void. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

**Section 5.9. Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee and of the United States and in the event of a dispute, the parties hereby consent to the jurisdiction of appropriate courts of the State of Tennessee to resolve such dispute.

**Section 5.10. No Third-Party Beneficiaries.** This Agreement is solely for the benefit of the parties hereto and should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, claim of action or other right in excess of those existing without reference to this Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized officers, on the day and year first above written.

**TRACTOR SUPPLY COMPANY, INC.**

By: Emil O. Marmore

Title: S - VP / CFO

**TRACTOR SUPPLY CO. OF MICHIGAN, LLC**

By: David C. Lewis

Title: Secretary

## ADMINISTRATIVE SERVICES AGREEMENT

THIS AGREEMENT executed this 30<sup>th</sup> day of September, 2001, to be effective the 30<sup>th</sup> day of September, 2001 (the "Effective Date"), by and between Tractor Supply Company ("TSC"), a Delaware corporation, and Tractor Supply Co. of Texas, LP ("TSC of Texas"), a Texas limited partnership.

### RECITALS

WHEREAS, TSC has significant experience in all facets of its specialty retail industry, including, but not limited to, accounting and financial administration, treasury services, legal, information systems management and data processing, human resources, marketing and advertising, and other general and administrative activities; and

WHEREAS, TSC of Texas is in need of and desires to secure certain support services for its day-to-day business operations; and

WHEREAS, TSC has the resources and ability to undertake such support services and is willing to provide such support services to TSC of Texas in exchange for appropriate compensation.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, TSC and TSC of Texas (hereinafter collectively referred to as "the Parties") hereby agree as follows:

### ARTICLE I TSC SUPPORT SERVICES

**Section 1.1. Provision of Support Services.** TSC hereby agrees to perform support services for TSC of Texas on a routine basis and as specifically requested by authorized officers or managers of TSC of Texas and approved by authorized officers or managers of TSC, including, but not limited to, the following:



**a. Accounting and Financial (Audit and Tax)**

- (i) Internal accounting;
- (ii) External financial reporting;
- (iii) Regulatory compliance;
- (iv) Reporting system design;
- (v) Budget consultation;
- (vi) Advice on cost analysis;
- (vii) Federal and state tax planning;
- (viii) Federal and state tax compliance; and
- (ix) Internal and external audit coordination.

**b. Financial (Fiscal) and Treasury Services**

- (i) Assistance in internal financial review;
- (ii) Coordination of centralized cash management and investment procedures;
- (iii) Assistance in cash flow planning and analysis; and
- (iv) Assistance in bank account management.

**c. Legal**

- (i) Advice on business related and other corporate and legal matters, including, but not limited to, negotiations and preparation of documents and draft agreements, mergers and acquisitions, and drafting, reviewing, and assistance with the execution of legal documents and contracts;
- (ii) Coordination of defense for any civil or criminal litigation arising from TSC of Texas' regular business operations;
- (iii) Coordination of review of real and tangible personal property leases;
- (iv) Coordination of advice on procuring licenses, approvals, registrations, and other formalities; and
- (v) Coordination and oversight of all regulatory compliance issues.



**d. Executive**

- (i) Formulation of business direction;
- (ii) Development and oversight of business strategy;
- (iii) Establishment and management of budgets and budgetary issues;
- (iv) Oversight of acquisitions and divestitures;
- (v) Coordination of common marketing goals and techniques; and
- (vi) Management of and responsibility for all shareholder matters.

**e. Human Resources and Benefits Administration**

- (i) Establishment of personnel policies and procedures;
- (ii) Selection and training of personnel;
- (iii) Advice on the expansion of the organization;
- (iv) Advice on the development and maintenance of incentive, retirement, and other benefit programs;
- (v) Advice on executive development programs, including availability of executive and local management positions; and
- (vi) Establishment of compensation procedures.

**f. Field Management and Quality Control**

- (i) Advice and assistance with inventory control systems and procedures;
- (ii) Advice and assistance with security matters;
- (iii) Provision of operational support with corporate communications, technical training and special events;
- (iv) Store planning; and
- (v) Employee education/management education.

**g. Marketing and Advertising**

- (i) Coordination of marketing strategies;

- (ii) Coordination/execution of consumer research, product research and product audience surveys; and
- (iii) Coordination of advertising (print, audio, video, etc.).

**h. Information Systems Management and Data Processing**

- i) Provision and maintenance of point of sale inventory management and sales recordation software and systems;
- ii) Provision and maintenance of vendor management systems; and
- iii) Provision and maintenance of payroll processing, accounting and human resources management software and systems.

**i. Other Services**

TSC of Texas may have occasion to require the provision of services from TSC other than those listed in subparagraphs a. through h. above. In such cases, TSC and TSC of Texas may reach mutual agreement for the performance of such other services, and the consideration for such additional services shall be negotiated between the parties acting at arm's length.

## **ARTICLE II COMPENSATION**

**Section 2.1. Rate of Compensation.** As consideration for the services described above, TSC of Texas shall pay to TSC an annual fee that will be established annually by TSC in order to reimburse TSC for its direct and indirect costs incurred in connection with this Agreement, plus an appropriate mark-up. The fee for each year will be established by TSC no later than December 15<sup>th</sup> of the prior year. The annual fee for 2001 will be \$ 2,925,540. This agreed upon fee shall be paid by TSC of Texas in equal monthly payments. The payments shall be due and payable no later than fifteen (15) days from the close of TSC of Texas's monthly accounting cycle. The established annual rate may be adjusted by written agreement of the Parties. Subject to approval by management

of TSC and TSC of Texas, payment for services may be made by cancellation of any debts owed to TSC of Texas by TSC.

**Section 2.2. Reimbursement of Advanced Funds.** As recited in the terms of this Agreement, TSC shall, from time to time, make accounts payable payments on TSC of Texas's behalf as needed. TSC agrees to advance such funds as are necessary to meet the reasonable business needs of TSC of Texas. TSC shall provide TSC of Texas with a written statement of all funds advanced on its behalf on a monthly basis, net of cash transfers by TSC of Texas to TSC for maintenance in TSC's concentration account. TSC of Texas agrees to reimburse TSC for the full amount of any such advances. Such reimbursements shall be made in conjunction with, and at the same time as, payment for services rendered pursuant to this Agreement is made.

### **ARTICLE III TERM AND TERMINATION**

**Section 3.1. Term.** This Agreement shall remain in effect for a period of one (1) year from the Effective Date and shall automatically renew at the end of such year, and each succeeding year, unless terminated by either party as provided below.

**Section 3.2. Termination.** Either party may terminate this Agreement by a written notice sent to the other party not less than thirty (30) days prior to the effective date of termination. Notwithstanding any provision to the contrary herein contained, in the event of a change of control in the current ownership structure of TSC of Texas TSC shall have the option, in its sole discretion to terminate this Agreement by giving ten (10) days written notice.

### **ARTICLE IV MISCELLANEOUS PROVISIONS**

**Section 4.1. Subcontracting.** Services to be provided by TSC to TSC of Texas under this Agreement may be subcontracted, in whole or in part, by TSC without the express written approval of TSC of Texas, but TSC will remain at all times fully liable for the

performance by any such subcontracted party in accordance with the terms of this Agreement.

**Section 4.2. Notices.** Any and all notices, elections, offers, acceptances, and demands permitted or required to be made under this Agreement shall be in writing, signed by the person giving such notice, election, offer, acceptance, or demand and shall be delivered personally, or sent by registered or certified mail, to the party, at its address on file with the other party or at such other address as may be supplied in writing. The date of personal delivery or the date of mailing, as the case may be, shall be the date of such notice, election, offer, acceptance, or demand.

**Section 4.3. Force Majeure.** If the performance of any part of this Agreement by either party, or of any obligation under this Agreement, is prevented, restricted, interfered with, or delayed by reason of any cause beyond the reasonable control of the party liable to perform, unless conclusive evidence to the contrary is provided, the party so affected shall, on giving written notice to the other party, be excused from such performance to the extent of such prevention, restriction, interference, or delay, provided that the affected party shall use its reasonable best efforts to avoid or remove such causes of nonperformance and shall continue performance with the utmost dispatch whenever such causes are removed. When such circumstances arise, the parties shall discuss what, if any, modification of the terms of this Agreement may be required in order to arrive at an equitable solution.

**Section 4.4. Successors and Assigns.** This Agreement shall be binding on and shall inure to the benefit of the parties, their respective successors, successors in title, and assigns, and each party agrees, on behalf of it, its successors, successors in title, and assigns, to execute any instruments that may be necessary or appropriate to carry out and execute the purpose and intentions of this Agreement and hereby authorizes and directs its successors, successors in title, and assigns to execute any and all such instruments. Each and every successor in interest to any party, whether such successor acquires such interest by way of gift, devise, assignment, purchase, conveyance, pledge, hypothecation,

foreclosure, or by any other method, shall hold such interest subject to all of the terms and provisions of this Agreement. The rights of the parties and their successors in interest shall be governed by the terms of this Agreement, and the right of any party or successor in interest to assign, sell, or otherwise transfer or deal with its interests under this Agreement shall be subject to the limitations and restrictions of this Agreement.

**Section 4.5. Amendment.** No change, modification, or amendment of this Agreement shall be valid or binding on the parties unless such change or modification shall be in writing signed by the party or parties against whom the same is sought to be enforced.

**Section 4.6. Limitation of Liability.** TSC will not be liable to TSC of Texas, or any other person or entity, for special, indirect, consequential or punitive damages caused by, attributable to, or arising in connection with, the performance, non-performance or delayed performance of the services contemplated by this Agreement, or any act or omission of TSC or any person or entity acting on behalf of TSC, whether negligent or otherwise, including without limitation, damages relating to loss of profit or business interruption, however such damages may be caused, except for such damages attributable to TSC's or other person's or entity's fraud, bad faith or willful misconduct. TSC will not be liable for any failure to perform or any delay in the performance of its obligations hereunder due to Force Majure (as defined in Section 4.3 above) or any cause beyond the reasonable control of TSC.

**Section 4.7. Remedies Cumulative.** The remedies of the parties under this Agreement are cumulative and shall not exclude any other remedies to which the party may be lawfully entitled.

**Section 4.8. Further Assurances.** Each party hereby covenants and agrees that it shall execute and deliver such deeds and other documents as may be required to implement any of the provisions of this Agreement.

**Section 4.9. No Waiver.** The failure of any party to insist on strict performance of a covenant hereunder or of any obligation hereunder shall not be a waiver of such party's right to demand strict compliance therewith in the future, nor shall the same be construed as a novation of this Agreement.

**Section 4.10. Integration.** This Agreement constitutes the full and complete agreement of the parties.

**Section 4.11. Applicable Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee.

**Section 4.12. Severability.** In the event any provision, clause, sentence, phrase, or word hereof, or the application thereof in any circumstances, is held to be invalid or unenforceable, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder hereof, or of the application of any such provision, sentence, clause, phrase, or word in any other circumstances.

**Section 4.13. Costs and Expenses.** Unless otherwise provided in this Agreement, each party shall bear all fees and expenses incurred in performing its obligations under this Agreement.

**Section 4.14. Examination of Book and Records.** TSC and TSC of Texas shall each have the right at its respective expense to examine the books and records of the other party during normal business hours at such other party's offices on giving reasonable notice for the purpose of auditing such records with respect to the performance of the obligations set forth in this Agreement.



*IN WITNESS WHEREOF*, the parties have executed this Agreement effective on the date first written above.

**TRACTOR SUPPLY COMPANY**

By: Cal B. Mason

Title: Sen VP / CFO

**TRACTOR SUPPLY CO. OF TEXAS, LP**

By: David C. Lewis

Title: Secretary

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**LICENSING AGREEMENT**  
**BETWEEN**  
**TRACTOR SUPPLY CO. OF TEXAS, LP**  
**AND**  
**TRACTOR SUPPLY COMPANY**

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**Effective as of the 30<sup>th</sup> day of September, 2001**



## **LICENSING AGREEMENT**

THIS LICENSING AGREEMENT (the "Agreement"), effective as of the 30<sup>th</sup> day of September, 2001 (the "Effective Date"), by and between TRACTOR SUPPLY CO. OF TEXAS, LP ("TSC OF TEXAS", "Seller" or "Licensor"), a Texas limited partnership having its principal place of business at 200 Powell Place, Brentwood, Tennessee, and TRACTOR SUPPLY COMPANY ("TSC", "Buyer" or "Licensee"), a Delaware corporation having its principal place of business at 200 Powell Place, Brentwood, Tennessee. The following Agreement is an agreement between the aforementioned Parties, by which TSC OF TEXAS provides for the licensed use by TSC of certain trademarks, trade names, and service marks. A list of such trademarks, trade names, service marks, and other intangibles is attached hereto as "Exhibit A".

### **RECITALS**

WHEREAS, TSC OF TEXAS owns certain trade names, trademarks, service marks and other intangibles, hereinafter collectively referred to as the "Marks", described with particularity in the attached Exhibit A; and

WHEREAS, TSC is the owner and operator of Tractor Supply Company retail stores; and

WHEREAS, TSC desires to obtain from TSC OF TEXAS, and TSC OF TEXAS desires to grant to TSC, a non-exclusive license to use the Marks in connection with both its existing and ongoing business operations in the United States of America, hereinafter referred to as "the Territory"; and

NOW THEREFORE, in consideration of the mutual covenants and agreements set forth below, TSC OF TEXAS and TSC, hereinafter collectively referred to as "the Parties," hereby agree as follows:

**ARTICLE I**  
**MANAGEMENT AND ADMINISTRATION**  
**OF**  
**INTELLECTUAL PROPERTY**

**Section 1.1. License.** For fair and valuable consideration, TSC OF TEXAS, as Licensor, hereby grants to TSC, as Licensee, and TSC hereby accepts, a non-exclusive license to use certain trademarks, trade names and service marks listed in the attached Exhibit A throughout the Territory in connection with the operation of TSC's retail stores. TSC OF TEXAS hereby grants to TSC, and TSC hereby accepts, the non-transferable, non-exclusive right, license and privilege to use in the Territory any marks in which TSC OF TEXAS subsequently acquires an interest during the term of this Agreement. The Parties agree periodically to update Exhibit A as necessary to accurately reflect any addition or deletion therefrom.

**Section 1.2. Assignment and Sublicenses.** TSC acknowledges and agrees that, subject to the terms and conditions of this Agreement, only TSC OF TEXAS has the right to license to other entities the right to use the Marks in any manner whatsoever. TSC shall not grant sublicenses to any entity or individual to use the Marks in any manner whatsoever and shall not delegate any of its rights, obligations or duties hereunder without the prior written consent of TSC OF TEXAS. Violations of these provisions will be deemed to be a material breach of this Agreement, entitling TSC OF TEXAS to terminate this Agreement.

**Section 1.3. Rights Reserved by Licensor.** TSC OF TEXAS reserves the right to use or license the use of the Marks inside and outside the Territory, and reserves the right to assign or otherwise dispose of the Marks subject to the specific rights granted by TSC OF TEXAS to TSC herein and subject to the terms and conditions hereof.

**Section 1.4. Standards.** TSC warrants that all products and services bearing the Marks shall be of a nature that shall be consistent with the high standards of quality and excellence established over the years with respect to the Marks. TSC shall comply with any quality standards that TSC OF TEXAS may set from time to time with regard to the

use of the Marks. The initial quality standard for each of the Marks shall be that currently maintained by Tractor Supply Company.

#### **Section 1.5. Quality Control.**

**1.5.1 Inspection.** To ensure that the high-level quality standards hereinabove described are maintained, TSC OF TEXAS or its duly authorized representative, at its own expense and on reasonable notice to TSC, may inspect at any reasonable time TSC's place(s) of business, to assure compliance with the quality standards established by TSC OF TEXAS.

**1.5.2 Samples.** In order to ensure that the high-level quality standards hereinabove are maintained, TSC shall furnish or make available to TSC OF TEXAS, or its designee, a reasonable number of representative samples of the Marks to determine that such marks meet the quality standards set forth herein.

**1.5.3 Quality Control System.** In order to ensure that the high-level quality standards hereinabove described are maintained, TSC shall continue to utilize the quality control system currently used by it, and with which Licensor is presently familiar. TSC shall not change its quality control system without the consent of Licensor, which consent shall not be unreasonably withheld.

**1.5.4 Records.** In order to ensure the that the high-level quality standards hereinabove described are maintained, TSC shall continue to maintain those quality control records and reports currently produced and maintained by TSC, which also comport with TSC OF TEXAS's standards, as set forth in Section 1.4 above. TSC shall not change such records or reports without the prior consent of TSC OF TEXAS, the consent for which shall not be unreasonably withheld.

**Section 1.6. Goodwill.** TSC recognizes the great value of the goodwill associated with the Marks and all rights therein, and that the goodwill attached thereto shall inure to the benefit of, and belong exclusively to, TSC OF TEXAS. TSC shall at all times recognize the validity of the Marks and TSC OF TEXAS's rights and title therein. TSC shall not,

during the term of this Agreement or thereafter, attack, impair or put in issue the title or any rights of TSC OF TEXAS in and to the Marks or attack the validity of the license granted herein. The Parties understand and agree that TSC OF TEXAS's primary objective in entering into this Agreement is the further protection and enhancement of its uniquely valuable trademarks and service marks. Accordingly, TSC covenants and agrees that, notwithstanding any other provision of this Agreement, it shall never take or continue any action that it knows, or has reason to know, would threaten to injure or diminish the image or reputation of TSC OF TEXAS or any of its Marks or products or services. In the event any action taken or continued by TSC results, or threatens to result, in injury to TSC OF TEXAS, TSC agrees promptly to take all steps necessary to avoid or stop the occurrence of such injury to TSC OF TEXAS.

**Section 1.7. Labeling.** Whenever TSC uses the Marks in connection with the sale, distribution, advertisement or promotion of its merchandise inventory, or in any other manner in connection with its merchandise inventory, TSC shall cause the "®" to be placed adjacent to all Marks for which a federal registration has been issued and shall cause the "™" to be placed adjacent to those Marks for which federal registrations have not issued in the same manner as set forth immediately above. TSC shall use said Marks in the exact form, except size, as set forth in the attached Exhibit A. In using the Marks, TSC shall comply with all laws pertaining to trademarks in force at any time in the Territory, including but not limited to, marking requirements. TSC shall comply with all federal and state labeling requirements for its merchandise inventory.

**Section 1.8. Ownership of the Marks.** TSC acknowledges TSC OF TEXAS's exclusive right, title and interest in, and to, said Marks and further acknowledges that nothing herein shall give it any right, title or interest in the Marks except the license to use the Marks granted in Section 1.1 hereof. TSC shall not, and warrants and represents that it will not, at any time, either during the term of this Agreement or thereafter, challenge TSC OF TEXAS's ownership of the Marks, challenge the validity of the Marks, or do or cause to be done, or omit to do, any act or thing, the doing or omission of which would contest, or in any way impair or tend to impair, any right, title or interest of TSC OF TEXAS in the Marks. TSC shall not, and warrants that it will not, in any

manner whatsoever, represent that it has any ownership in, or right, title or interest to, the Marks, or any registrations thereof, and acknowledges that its use of the Marks shall not create in it any right, title or interest in or to the Marks, but that all uses by it of the Marks shall inure to the benefit of TSC OF TEXAS. On termination of this Agreement for any reason, TSC shall cease and desist from all uses of the Marks in any form or manner, and shall deliver up to TSC OF TEXAS, or its duly authorized representative, all materials, containers, wrappers, papers and other items on which the Marks appear. Nor shall TSC adopt or use, without TSC OF TEXAS's prior written consent, the Marks, or any mark that is confusingly similar to, or a colorable imitation of, the Marks.

**Section 1.9. Protection of Rights.** TSC agrees to assist TSC OF TEXAS in the protection and defense of any of TSC OF TEXAS's rights in the Marks, in the filing and prosecution of any trademark applications, renewals, and the like, in the recording of this Agreement and other relevant agreements, and in the doing of any other acts with respect to the Marks, including the prevention of the use thereof by any unauthorized persons that, in the judgment of the TSC OF TEXAS, may be necessary or desirable under any law, regulation or decree of the United States. TSC shall notify TSC OF TEXAS promptly in writing of any infringements or imitations by others of the Marks that come to TSC's attention, and TSC OF TEXAS shall have the sole right to determine whether any action shall be taken on any such infringements or imitations. If TSC OF TEXAS so desires, it may prosecute any claims or suits in its own name or join TSC as a Party thereto, all at TSC OF TEXAS's expense. TSC shall not institute any suit or take any action on account of any actual or alleged infringements or imitations of the Marks or other property, and TSC shall not have any rights against TSC OF TEXAS for damages or other remedy by reason of TSC OF TEXAS's failure to prosecute any alleged infringements or imitations by others of the Marks.

**Section 1.10. Best Efforts.** TSC shall use its best efforts to advertise, promote, market, sell and distribute its merchandise inventory in the Territory. TSC OF TEXAS shall assist TSC in TSC's marketing efforts, as deemed appropriate by TSC OF TEXAS in its sole discretion.



**Section 1.11. Reporting.** TSC shall maintain detailed, complete and accurate records of all sales of its merchandise inventory under the Marks. Within thirty (30) days after the end of each calendar quarter, TSC shall deliver to TSC OF TEXAS a complete report of such sales. TSC OF TEXAS or its designated agent shall have the right to examine the books and records of TSC relating to the sale and distribution of the products on reasonable notice during normal business hours.

**Section 1.12. Indemnification.** TSC acknowledges and understands that TSC OF TEXAS, as a result of its execution of this Agreement, assumes no duty or responsibility and consequently has no liability to TSC or any third party with respect to any product liability, personal injury or other similar claim arising out of TSC's production sale or distribution of its merchandise inventory and the consumption or other use of merchandise inventory sold by TSC by any person, except for such liability arising out of TSC OF TEXAS's negligent act or omission. TSC shall, at its own expense, defend, indemnify and hold harmless TSC OF TEXAS, its directors, officers and employees against claims of third parties involving TSC's use of the Marks, its sale or distribution of its merchandise inventory, and the consumption or other use of merchandise inventory associated with the business of TSC, except such claims, if any, resulting from act or omission of TSC OF TEXAS. TSC OF TEXAS may participate in the defense of any claim or action in which it is a party, at its own expense and through its own counsel.

**Section 1.13. Third Party Infringement.** In the event any third party violates TSC OF TEXAS's right, title and interest in and to the Marks, TSC shall cooperate fully with TSC OF TEXAS to terminate such violations. TSC OF TEXAS shall take all reasonably necessary steps at its own expense to maintain the Marks, to keep all reasonably necessary registrations in full force and effect, and protect TSC against infringement of the Marks by third parties; provided, however, that TSC shall notify TSC OF TEXAS of any violations of TSC OF TEXAS's right, title or interest in the Marks of which TSC has notice. TSC OF TEXAS and TSC possess the joint right to prosecute and defend all suits or proceedings before governmental agencies that involve in any way validity of, title to, or infringement of the Marks.

**Section 1.14. Breach of Agreement.** In the event that TSC fails to comply with the terms of this Agreement, TSC OF TEXAS shall notify TSC in writing of such failure and TSC OF MICHIGAN shall have thirty (30) days after the date of its receipt of such notice within which to cure its failure. If such failure is not cured within said thirty (30) day period, TSC OF TEXAS may, at its option, sue to enjoin such failure, sue for damages resulting from such failure, terminate this Agreement, or exercise all such remedies. The provisions of this paragraph are in addition to and not in limitation of those rights and duties provided elsewhere in this Agreement and by law.

## **ARTICLE II**

### **COMPENSATION**

**Section 2.1. Rate of Compensation.** In consideration of the above described licenses granted by TSC OF TEXAS to TSC pursuant to this Agreement, TSC agrees to engage TSC OF TEXAS as its sole and exclusive supplier of any and all merchandise inventory sold in TSC retail store locations.

## **ARTICLE III**

### **TERM AND TERMINATION**

**Section 3.1. Term.** This Agreement shall remain in full force and effect for a period of one (1) year from the Effective Date and shall automatically renew at the end of such year, and each succeeding year, unless terminated by either Party as provided below.

**Section 3.2. Termination.** Either Party may terminate this Agreement by a written notice sent to the other Party not less than thirty (30) days prior to the effective date of termination. This Agreement shall terminate forthwith, and the notice provisions of this Section are inapplicable, if a trustee or receiver is appointed to administer or conduct the business or affairs of TSC, if it is adjudged by any legal proceedings to be either voluntarily or involuntarily bankrupt. In such event, the rights granted herein shall forthwith cease and terminate without prior notice or legal action by TSC OF TEXAS, subject to such payments as shall be due from either Party to the other as of such

termination date and the return of materials to TSC OF TEXAS by TSC in accordance with the provisions of Section 1.8 hereof.

Notwithstanding any provisions to the contrary herein, in the event of a change of control, in any manner, in the current ownership structure of TSC as of the date of this Agreement, TSC OF TEXAS shall have the option, in its sole discretion, to terminate this Agreement by the giving of ten (10) days written notice.

#### **ARTICLE IV**

##### **MISCELLANEOUS PROVISIONS**

**Section 4.1. Notices.** Any and all notices, elections, offers, acceptances, and demands permitted or required to be made under this Agreement shall be in writing, signed by the person giving such notice, election, offer, acceptance, or demand and shall be delivered personally, or sent by registered or certified mail, to the Party, at its address on file with the other Party or at such other address as may be supplied in writing. The date of personal delivery or the date of mailing, as the case may be, shall be the date of such notice, election, offer, acceptance, or demand.

**Section 4.2. Force Majeure.** If the performance of any part of this Agreement by either Party, or of any obligation under this Agreement, is prevented, restricted, interfered with, or delayed by reason of any cause beyond the reasonable control of the Party liable to perform, unless conclusive evidence to the contrary is provided, the Party so affected shall, on giving written notice to the other Party, be excused from such performance to the extent of such prevention, restriction, interference, or delay, provided that the affected Party shall use its reasonable best efforts to avoid or remove such causes of nonperformance and shall continue performance with the utmost dispatch whenever such causes are removed. When such circumstances arise, the Parties shall discuss what, if any, modification of the terms of this Agreement may be required in order to arrive at an equitable solution.

**Section 4.3. Successors and Assigns.** This Agreement shall be binding on, and shall inure to the benefit of, the Parties, their respective successors, successors in title, and



assigns, and each Party agrees, on behalf of it, its successors, successors in title, and assigns, to execute any instruments that may be necessary or appropriate to carry out and execute the purpose and intentions of this Agreement and hereby authorizes and directs its successors, successors in title, and assigns to execute any and all such instruments. Each and every successor in interest to any Party, whether such successor acquires such interest by way of gift, devise, assignment, purchase, conveyance, pledge, hypothecation, foreclosure, or by any other method, shall hold such interest subject to all of the terms and provisions of this Agreement. The rights of the Parties and their successors in interest shall be governed by the terms of this Agreement, and the right of any Party or successor in interest to assign, sell, or otherwise transfer or deal with its interests under this Agreement shall be subject to the limitations and restrictions of this Agreement.

**Section 4.4. Amendment.** No change, modification, or amendment of this Agreement shall be valid or binding on the Parties unless such change or modification shall be in writing signed by the Party or Parties against whom the same is sought to be enforced.

**Section 4.5. Remedies Cumulative.** The remedies of the Parties under this Agreement are cumulative and shall not exclude any other remedies to which the Party may be lawfully entitled.

**Section 4.6. Further Assurances.** Each Party hereby covenants and agrees that it shall execute and deliver such deeds and other documents as may be required to implement any of the provisions of this Agreement.

**Section 4.7. No Waiver.** The failure of any Party to insist on strict performance of a covenant hereunder or of any obligation hereunder shall not be a waiver of such Party's right to demand strict compliance therewith in the future, nor shall the same be construed as a novation of this Agreement.

**Section 4.8. Integration.** This Agreement constitutes the full and complete agreement of the Parties.

**Section 4.9. Applicable Law.** This Agreement shall be governed by and construed in accordance with the laws of the state of Tennessee.

**Section 4.10. Severability.** In the event any provision, clause, sentence, phrase, or word hereof, or the application thereof in any circumstances, is held to be invalid or unenforceable, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder hereof, or of the application of any such provision, sentence, clause, phrase, or word in any other circumstances.

**Section 4.11. Costs and Expenses.** Unless otherwise provided in this Agreement, each Party shall bear all fees and expenses incurred in performing its obligations under this Agreement.

**Section 4.12. Examination of Book and Records.** TSC OF TEXAS and TSC shall each have the right at its respective expense to examine the books and records of the other Party during normal business hours at such other Party's offices on giving reasonable notice for the purpose of auditing such records with respect to the performance of the obligations set forth in this Agreement.

**Section 4.13. Incorporation of Exhibits.** Exhibit A attached hereto is expressly made part of this Agreement, is incorporated by reference, and shall be given the same force and effect as if said Exhibit was included within the body of this Agreement.

**Section 4.14. Prior Agreements Superseded.** This Agreement constitutes the entire agreement between the Parties and supersedes any prior understanding or agreement between them respecting the subject matter hereof. There are no representations, arrangements, understandings or agreements, oral or written, between the Parties hereto relating to the subject matter of this Agreement, except those fully expressed herein.

IN WITNESS WHEREOF the Parties have executed this Agreement effective on the date first written above.

**TRACTOR SUPPLY CO. OF TEXAS, LP**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**TRACTOR SUPPLY COMPANY**

By: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A**

Attach list of trademarks and trade names



Preferred Marine Cargo Panel



## MARINE CARGO AND WAR RISK INSURANCE DECLARATION PAGE

|                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |             |
|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| <b>ASSURED:</b>                           | Tractor Supply Company<br>200 Powell Place, Brentwood, Tennessee, 37027                                                                                                                                                                                                                                                                                                                                                                                                              |             |
| <b>ATTACHMENT DATE:</b>                   | Effective 4/1/2015 and continuous until cancelled                                                                                                                                                                                                                                                                                                                                                                                                                                    |             |
| <b>POLICY NUMBER:</b>                     | OC 91178100                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |             |
| <b>GOODS INSURED:</b>                     | Goods and/or Merchandise of every description consisting principally of Tractor/trailer parts and accessories, power and hand tools, lawn and garden supplies, welding and pump supplies, sprinklers/irrigation parts, fencing, welding, and pump supplies, clothing, equine and pet supplies. and other goods and/or merchandise and/or property incidental to the insured's business.                                                                                              |             |
| <b>GEOGRAPHIC SCOPE:</b>                  | Lost or not lost at and from ports and/or places in the world to ports and/or places in the world or via ports and/or places in any order, via any route including the risk of transshipment by land, air or water whether customary or otherwise, however excluding always shipments to or from those countries which the Government of the United States currently forbids trade.                                                                                                  |             |
| <b>VALUATION:</b>                         | Goods &/or merchandise insured under this policy shall be valued at:<br>Finished goods at selling price if sold; else, CIF +10%.                                                                                                                                                                                                                                                                                                                                                     |             |
| <b>INSURING CONDITIONS:</b>               | All shipments unless otherwise specified below are insured against all risks of physical loss or damage from any external cause irrespective of percentage, excepting risks excluded by the FC&S (Free of Capture and Seizure) and SR&CC (Strikes, Riots, and Civil Commotions) Warranties appearing elsewhere in this policy.                                                                                                                                                       |             |
| <b>ADDITIONAL TERMS &amp; CONDITIONS:</b> | Strikes, Riots and Civil Commotions Endorsement (Form 12A). American Institute (AIMU) War Risk Only Open Policy (Cargo).                                                                                                                                                                                                                                                                                                                                                             |             |
| <b>LIMITS OF LIABILITY:</b>               | Limit for any one conveyance, connecting conveyance, craft or at any place at any time;                                                                                                                                                                                                                                                                                                                                                                                              | \$5,000,000 |
| <b>DEDUCTIBLES:</b>                       | Transit Exposure Deductible Amount (per occurrence): <span style="float: right;">\$ 0</span><br><br>The deductibles listed herein shall apply to any one loss or series of losses occurring during a single venture, however, this deductible shall not apply to (i) survey fees, (ii) general average, salvage or special charges, (iii) loss, damage or expense covered under the Sue and Labor, Constructive Total Loss or Debris Removal clauses, a total loss, or the S.R.&C.C. |             |





## Preferred Marine Cargo Panel



|                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                |          |                                                |          |                                                |          |                                                |          |
|------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------|------------------------------------------------|----------|------------------------------------------------|----------|------------------------------------------------|----------|
|                                                | <p><b>Endorsement.</b><br/>The deductible shall not be applied so as to reduce This Assurer's obligation to pay the full amount of any limit(s) of liability set forth in this policy.</p>                                                                                                                                                                                                                                                                                 |                                                |          |                                                |          |                                                |          |                                                |          |
| <b>CAT LIMIT AND DEDUCTIBLE:</b>               | <p>Limit for Wind, Flood and Earthquake:<br/>Deductible for Wind, Flood and Earthquake (per occ.):</p>                                                                                                                                                                                                                                                                                                                                                                     |                                                |          |                                                |          |                                                |          |                                                |          |
| <b>UNDERWRITING INFORMATION:</b>               | <p><b>Sales Exposure(s):</b></p> <p>Total Gross Sales: \$5,664,933,619</p> <p><b>Transit Exposure(s):</b></p> <table> <tr> <td>Average Value on a Single Conveyance (Vessel):</td><td>\$40,000</td></tr> <tr> <td>Maximum Value on a Single Conveyance (Vessel):</td><td>\$60,000</td></tr> <tr> <td>Average Value on a Single Conveyance (Inland):</td><td>\$40,000</td></tr> <tr> <td>Maximum Value on a Single Conveyance (Inland):</td><td>\$60,000</td></tr> </table> | Average Value on a Single Conveyance (Vessel): | \$40,000 | Maximum Value on a Single Conveyance (Vessel): | \$60,000 | Average Value on a Single Conveyance (Inland): | \$40,000 | Maximum Value on a Single Conveyance (Inland): | \$60,000 |
| Average Value on a Single Conveyance (Vessel): | \$40,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                |          |                                                |          |                                                |          |                                                |          |
| Maximum Value on a Single Conveyance (Vessel): | \$60,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                |          |                                                |          |                                                |          |                                                |          |
| Average Value on a Single Conveyance (Inland): | \$40,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                |          |                                                |          |                                                |          |                                                |          |
| Maximum Value on a Single Conveyance (Inland): | \$60,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                |          |                                                |          |                                                |          |                                                |          |
| <b>COVERAGE(S) PURCHASED:</b>                  | <p><b>Ocean Marine Cargo</b><br/><b>Domestic Inland Transit</b></p>                                                                                                                                                                                                                                                                                                                                                                                                        |                                                |          |                                                |          |                                                |          |                                                |          |
| <b>OTHER CONDITIONS / EXCLUSIONS</b>           | <p>As per the broker, the exposure has not changed from last year (\$396,072,943 in estimated insure annual values shipped internationally, and \$292,474,147 in estimated insured annual values shipped domestically).</p>                                                                                                                                                                                                                                                |                                                |          |                                                |          |                                                |          |                                                |          |
| <b>RATE &amp; ADJUSTMENT TERMS:</b>            | <p>Flat non adjustable annual premium payable at inception, otherwise please define exposure base for any rate &amp; adjustment terms submitted.</p> <p>Inclusive of Marine &amp; War/S.R.&amp;C.C. (except "on application" areas subject to surcharge).</p>                                                                                                                                                                                                              |                                                |          |                                                |          |                                                |          |                                                |          |
| <b>PREMIUM:</b>                                | <p>\$21,350 including TRIA</p>                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                |          |                                                |          |                                                |          |                                                |          |



**Preferred Marine Cargo Panel**



*NO KNOWN LOSSES as of 3/23/2015, which refers to the date that policy has been bound.*

A handwritten signature in blue ink, appearing to read "Dennis Bartish", is written over a light blue horizontal line.

Date: Monday, March 23, 2015

State Broker Code:

Authorized Representative of AGCS Marine insurance Company

**MINUTES OF THE MEETING  
OF  
THE BOARD OF DIRECTORS  
OF  
TRACTOR SUPPLY COMPANY**

Held on July 26, 2001

The meeting (the "Meeting") of the Board of Directors (the "Board") of TRACTOR SUPPLY COMPANY, a Delaware corporation (the "Corporation"), was held at the offices of the Corporation, 320 Plus Park Boulevard, Nashville, Tennessee, at 8:00 a.m. on July 26, 2001, pursuant to notice.

The following directors of the Corporation were present at the meeting:

Joseph H. Scarlett, Jr., Chairman  
Thomas O. Flood  
Joseph D. Maxwell  
S.P. Braud  
Joseph M. Rodgers  
Gerard E. Jones

, constituting a majority of the members of the Board. Also present at the request of the Board were James F. Wright, President and Chief Operating Officer of the Corporation, Calvin B. Massmann, Senior Vice President and Chief Financial Officer of the Corporation, and David C. Lewis, Vice President-Controller and Corporate Secretary of the Corporation.

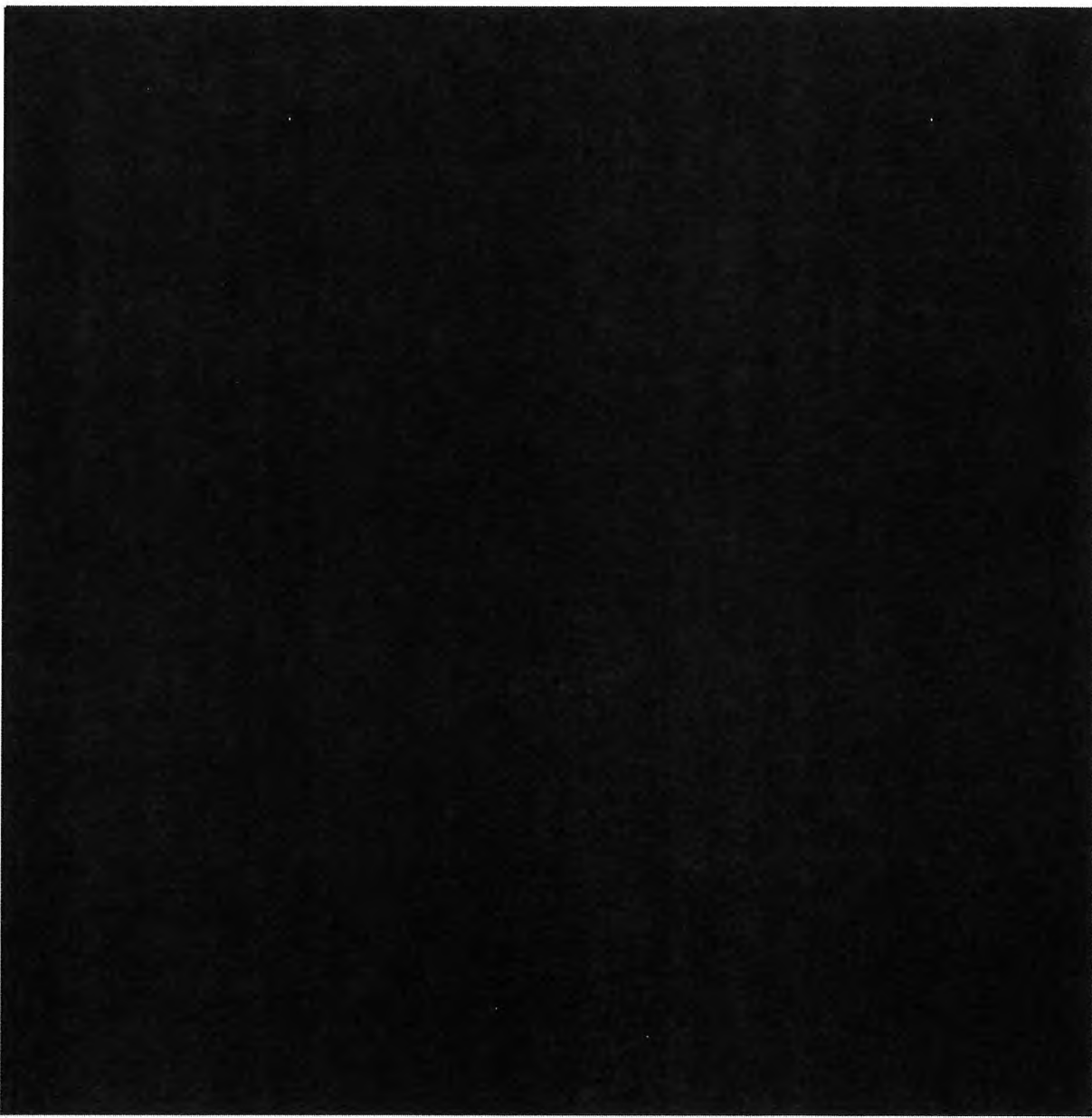
Mr. Scarlett, Chairman of the Board and Chief Executive Officer of the Corporation, called the Meeting to order and acted as Chairman of the Meeting. Mr. Lewis was appointed Secretary of the Meeting and kept the minutes thereof.

Mr. Scarlett then asked the Board to approve the minutes of the meetings of the Board held on April 25 and 26, 2001, in the forms previously circulated to the Board. Upon a motion duly made and seconded, it was unanimously

RESOLVED, that (i) the minutes of the meeting of the Board of Directors (the "Board") of Tractor Supply Company (the "Corporation") held on April 26, 2001 and (ii) the minutes of the meeting of the Compensation Committee of the Board held on April 25, 2001, in the forms previously distributed to the Board, be, and they hereby are, accepted, approved and adopted in all respects and the Corporate Secretary of the Corporation be, and he hereby is, authorized and directed to file all such minutes in the minute book of the Corporation.

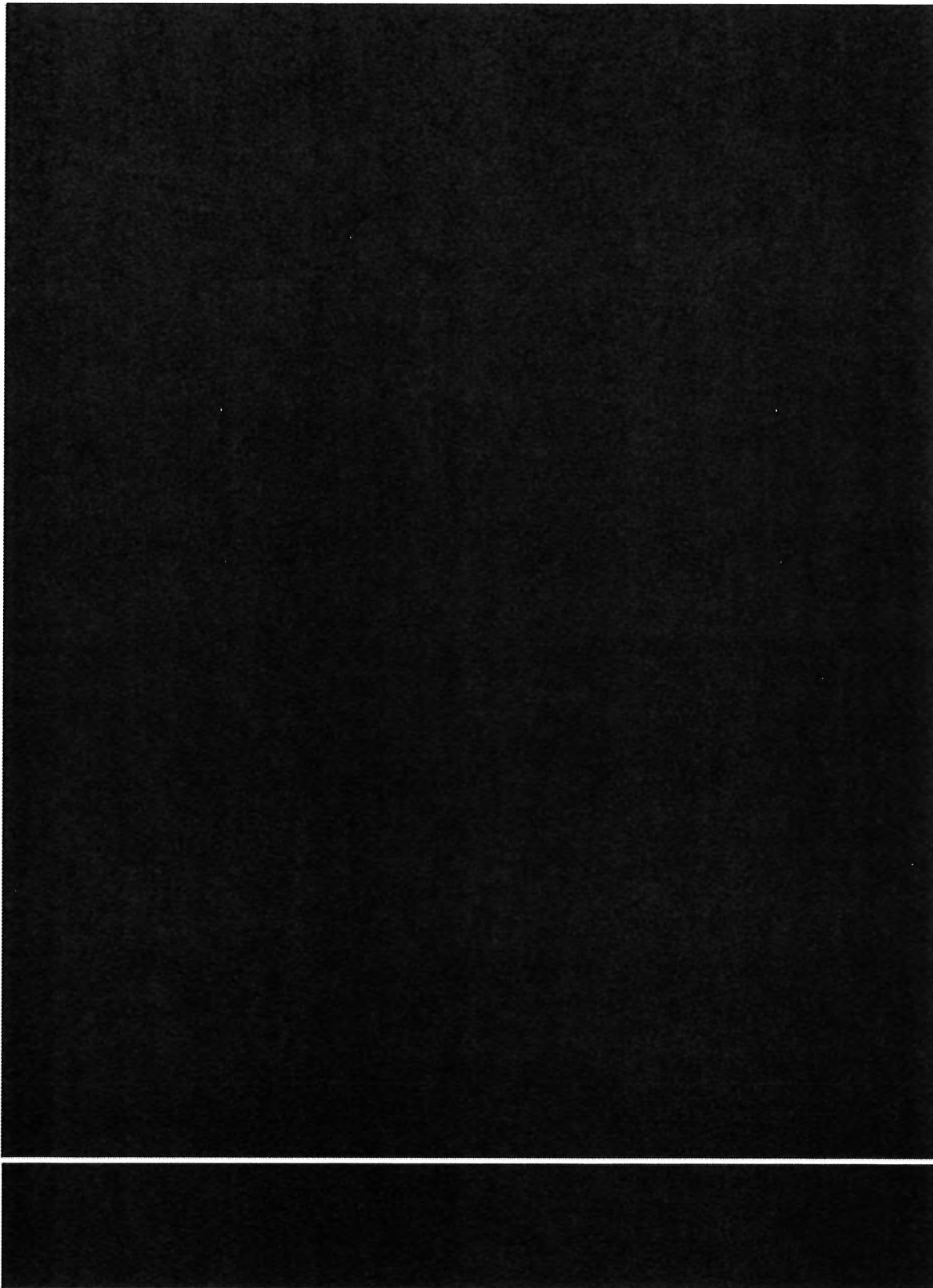
Mr. Scarlett then asked the Board to approve the minutes of the annual meeting of stockholders held on April 26, 2001, in the forms previously circulated to the Board. Upon a motion duly made and seconded, it was unanimously

RESOLVED, that the minutes of the annual meeting of Stockholders of Tractor Supply Company (the "Corporation") held on April 26, 2001, in the forms previously distributed to the Board of directors of the Corporation, be, and they hereby are, accepted, approved and adopted in all respects and the Secretary of the Corporation be, and he hereby is, authorized and directed to file such minutes in the minute book of the Corporation.



ITSC 1569





ITSC 1570



Mr. Massmann then provided the Board with an update on the Corporation's state tax planning strategies. Mr. Massmann explained that the work was proceeding as planned and, as the work progressed, there were two matters which were deemed to require Board-level attention. Mr. Massmann then introduced Mr. Lewis, who proceeded to describe, in general terms, the following two matters:

- (1) formation of two new subsidiaries (the structure of which was previously distributed to the Board), and
- (2) the applicability of the Corporation's stock purchase plan and stock option plans to employees of the two new subsidiaries.

The Board then discussed the matters at length. Upon a motion duly made and seconded, it was unanimously

WHEREAS, the Corporation has established a strategy for reduction of state income tax expenses the details of which were previously presented to the Board (the "Tax Restructuring"); and

WHEREAS, the Board previously approved the formation of a Texas limited partnership by resolution dated October 25, 2000, relating to the Tax Restructuring; and

WHEREAS, the Corporation, having further planned and identified additional organizational restructuring necessary to more fully realize benefits under such strategies, desires to clarify certain details;

Now, THEREFORE, BE IT RESOLVED, that the Board hereby ratifies the formation of Tractor Supply Co. of Texas, LP, a Texas limited partnership, as an indirect wholly-owned subsidiary of the Corporation, previously approved by resolution dated October 25, 2000; and further

RESOLVED, that the transfer of related retail store and distribution center operations, as well as certain assets, liabilities, leases, contracts and employees of the Corporation in the state of Texas to Tractor Supply Co. of Texas, LP, pursuant to the terms of the Tax Restructuring, be, and the same hereby is, approved, authorized and adopted in all respects; and further

RESOLVED, that the transfer of merchandising operations, as well as certain assets, liabilities, leases, contracts and employees of the Corporation to Tractor Supply Co. of Texas, LP, pursuant to the terms of the Tax Restructuring, be, and the same hereby is, approved, authorized and adopted in all respects; and further

RESOLVED, that the Board hereby ratifies the formation of Tractor Supply Co. of Michigan, LLC, a Michigan limited liability company, pursuant to the terms of the Tax Restructuring, as a wholly-owned subsidiary of the Corporation; and further

RESOLVED, that the transfer of related retail store operations, as well as certain assets, liabilities, leases and contracts of the Corporation in the state of Michigan to Tractor Supply Co. of Michigan, LLC, be, and the same hereby is, approved, authorized and adopted in all respects.

and further;

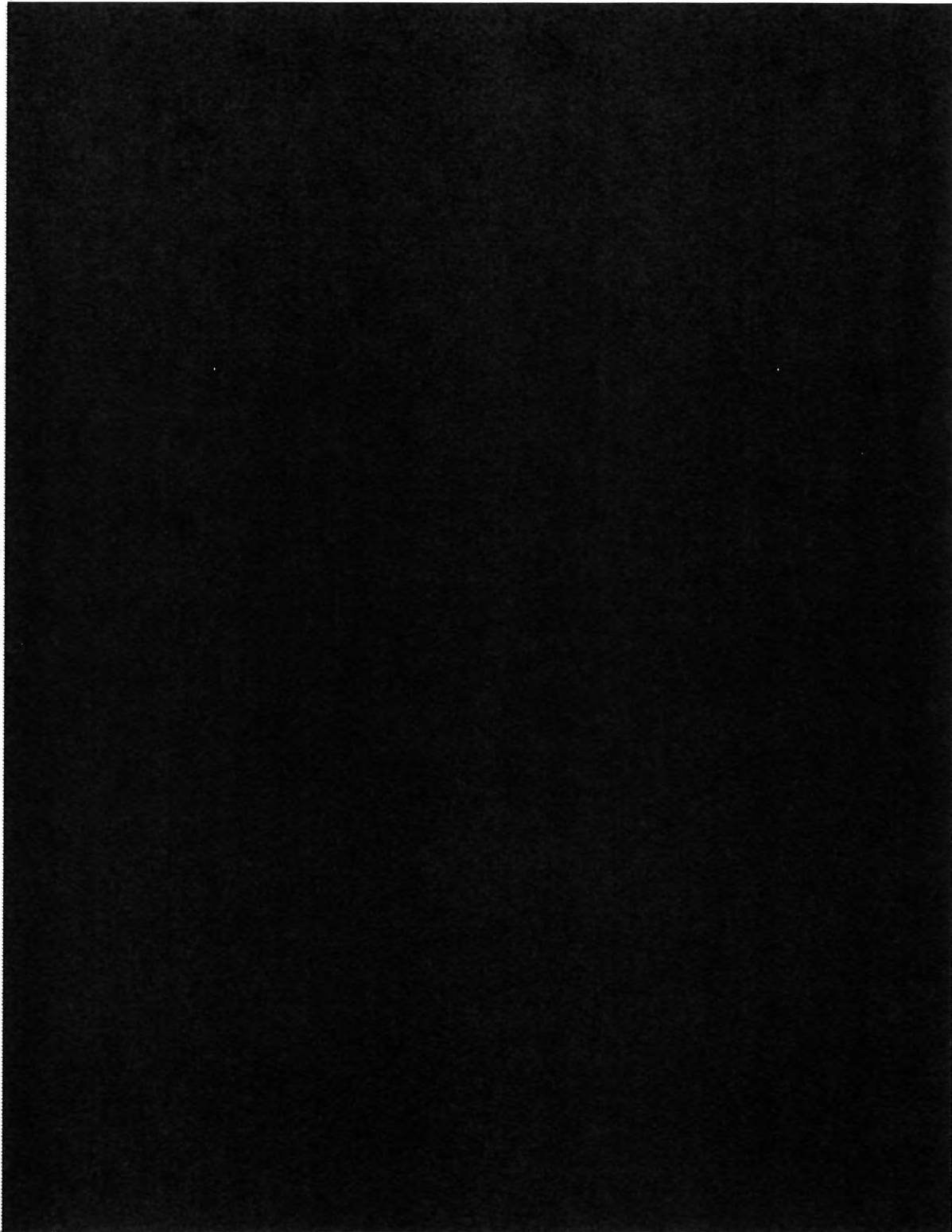
WHEREAS, the Board has previously approved the following benefit plans under which the Corporation provides defined and eligible employees of the Corporation with the ability to (a) purchase stock of the Corporation through payroll deduction and (b) receive options for the future purchase of stock of the Corporation:

- 1994 Tractor Supply Company Stock Option Plan
- Tractor Supply Company Associates Stock Purchase Plan
- 2000 Tractor Supply Company Stock Incentive Plan

(collectively the "Stock Plans"); and

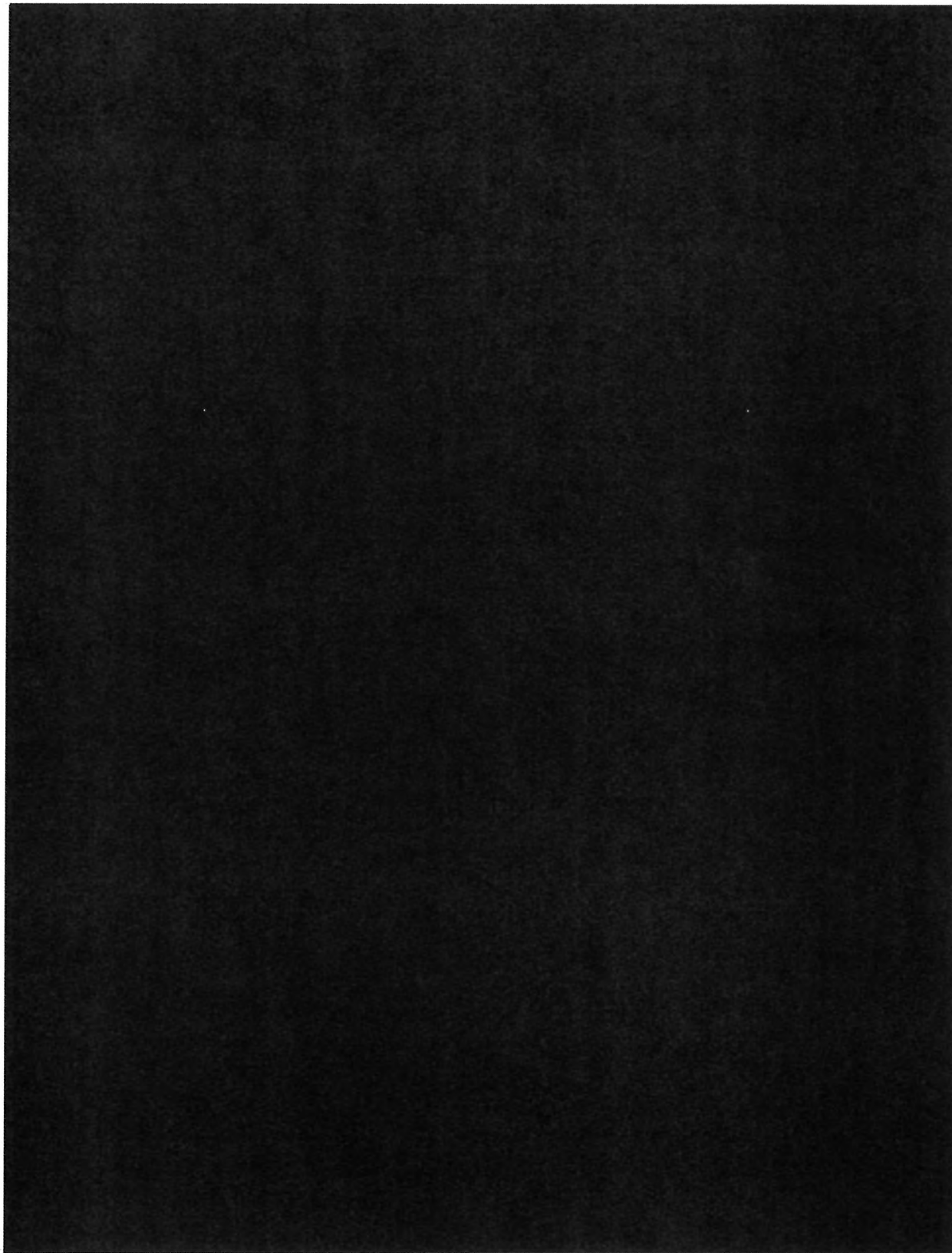
WHEREAS, the Corporation, having further planned and identified additional organizational restructuring necessary to more fully realize benefits under certain tax planning strategies, desires to clarify certain details;

Now, THEREFORE, BE IT RESOLVED, that the Board hereby ratifies the Compensation Committee's interpretation of the provisions of the Stock Plans, to include employees to be transferred to or hired in the future by Tractor Supply Co. of Texas, LP and Tractor Supply Co. of Michigan, LLC, newly-formed subsidiaries of the Corporation, as eligible employees under the Stock Plans.



ITSC 1573

PAGE 7 OF 12

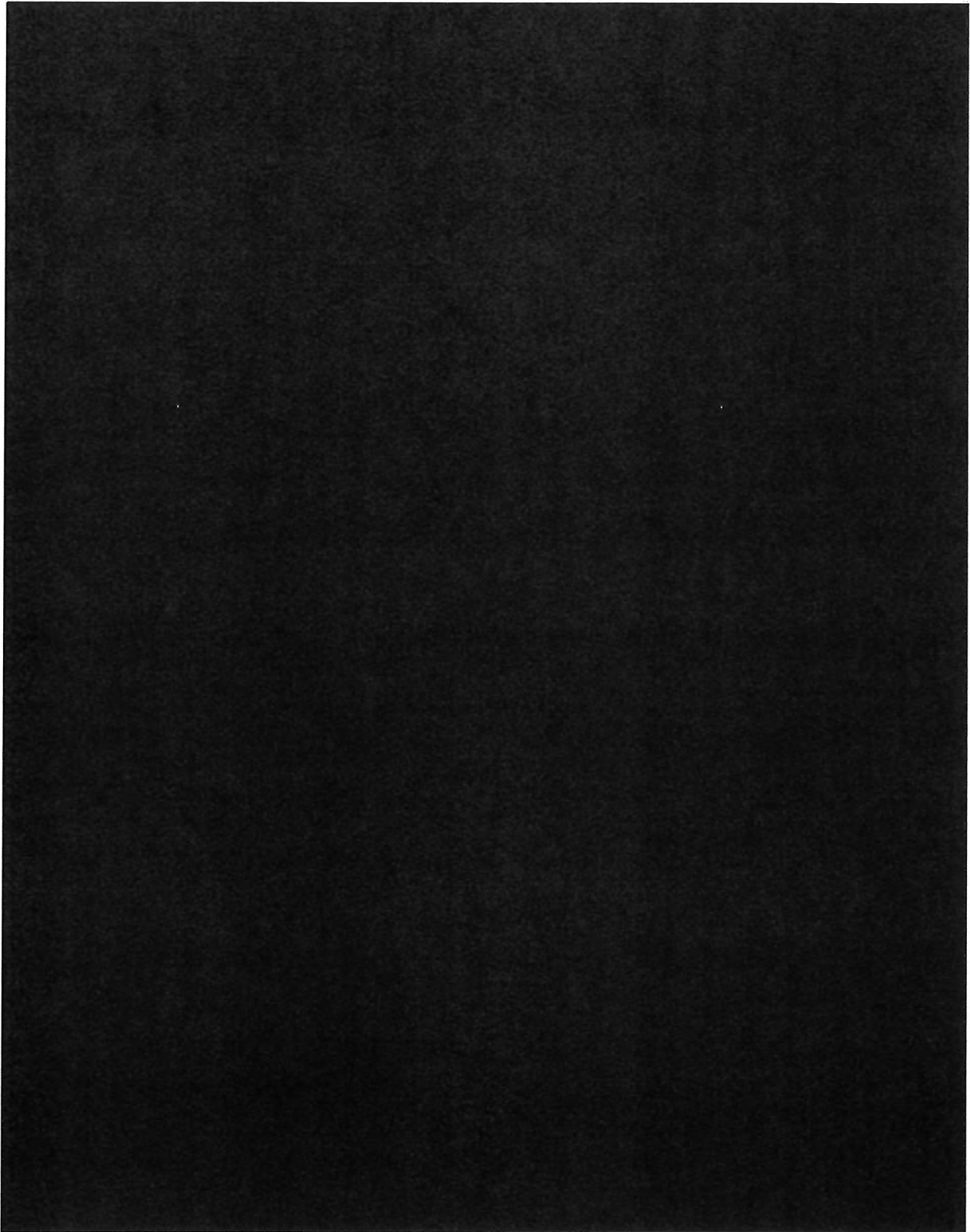


ITSC 1574

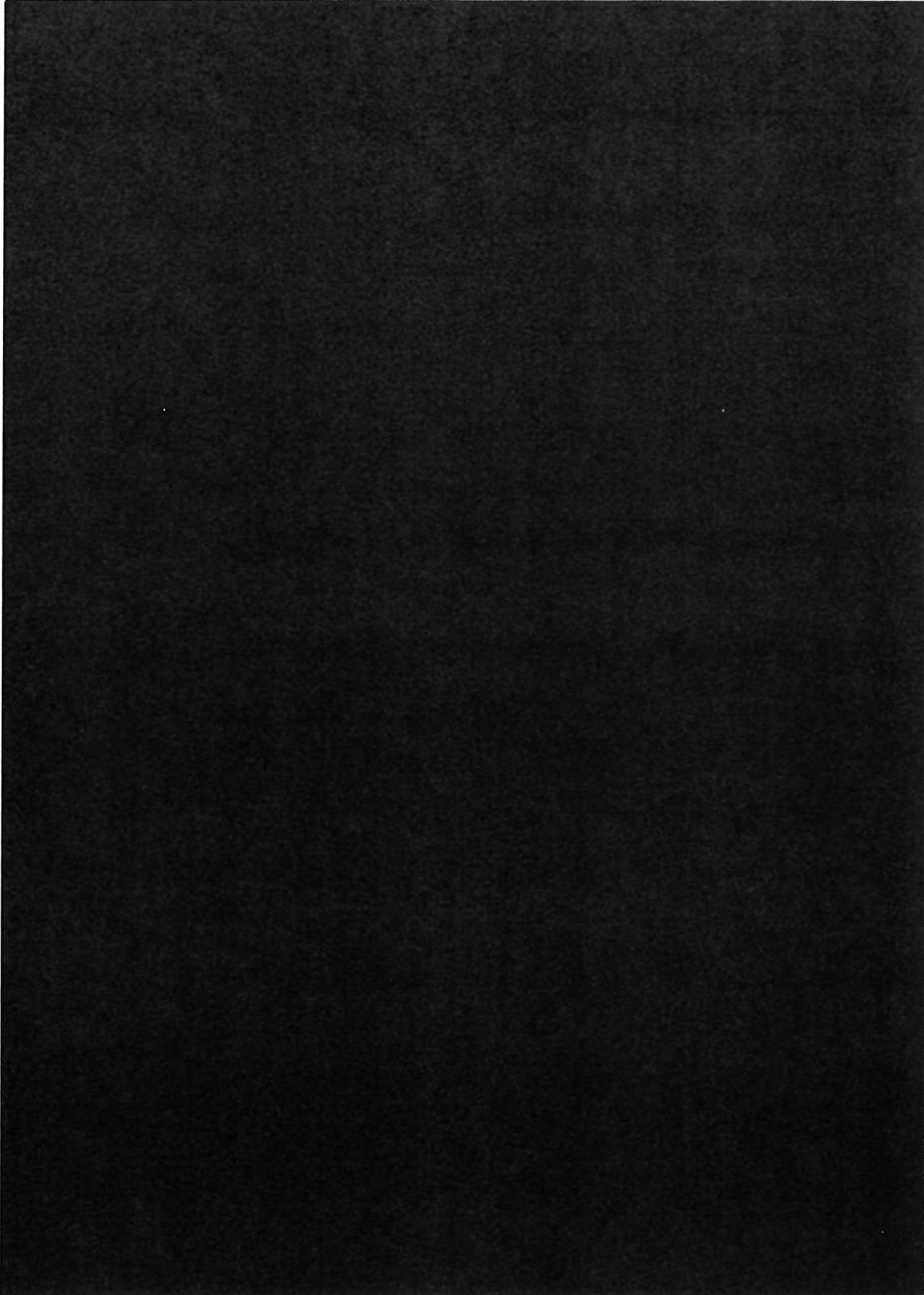
ROA\_004462

TSC\_00004689



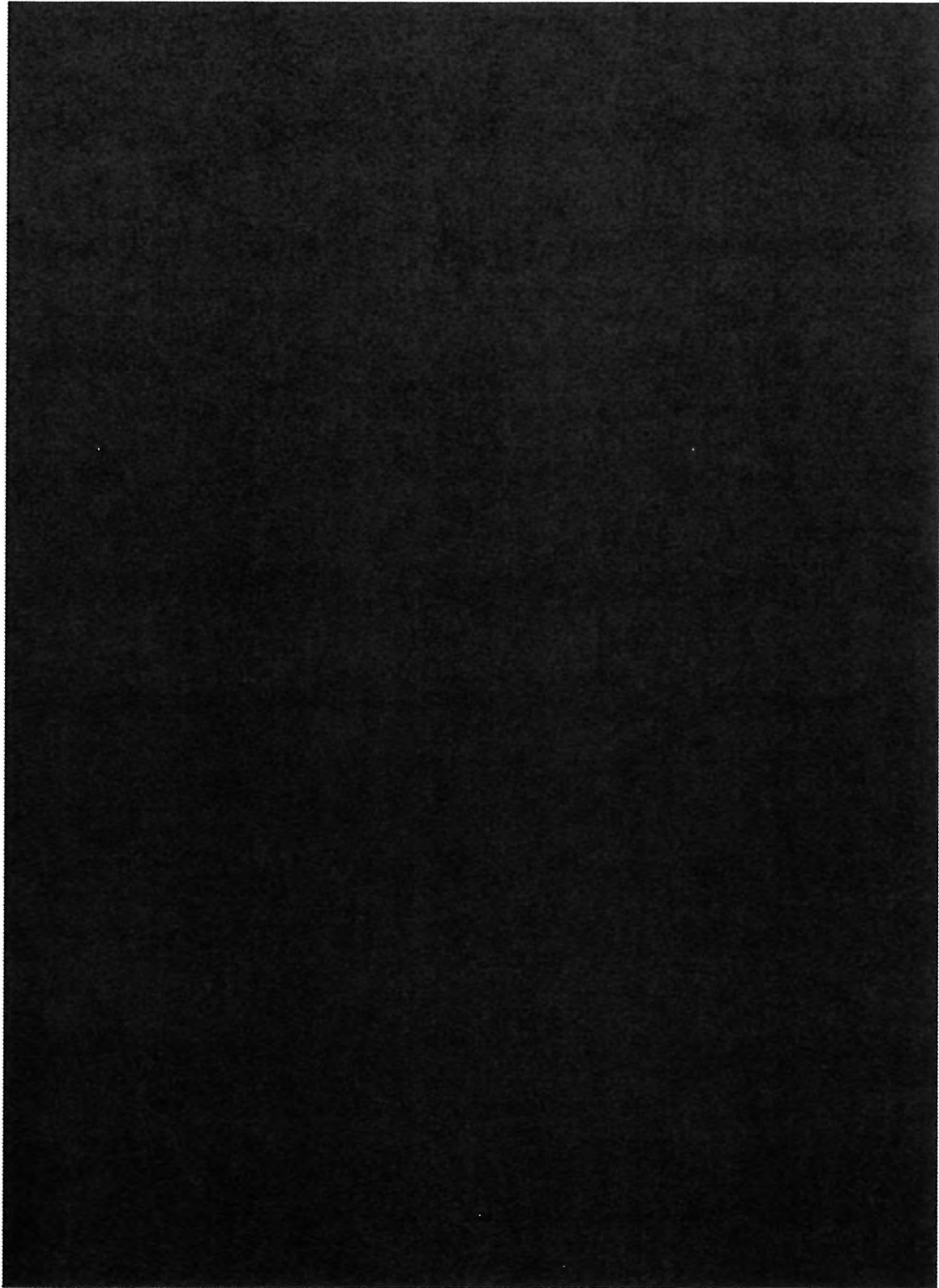


ITSC 1575



ITSC 1576

PAGE 10 OF 12

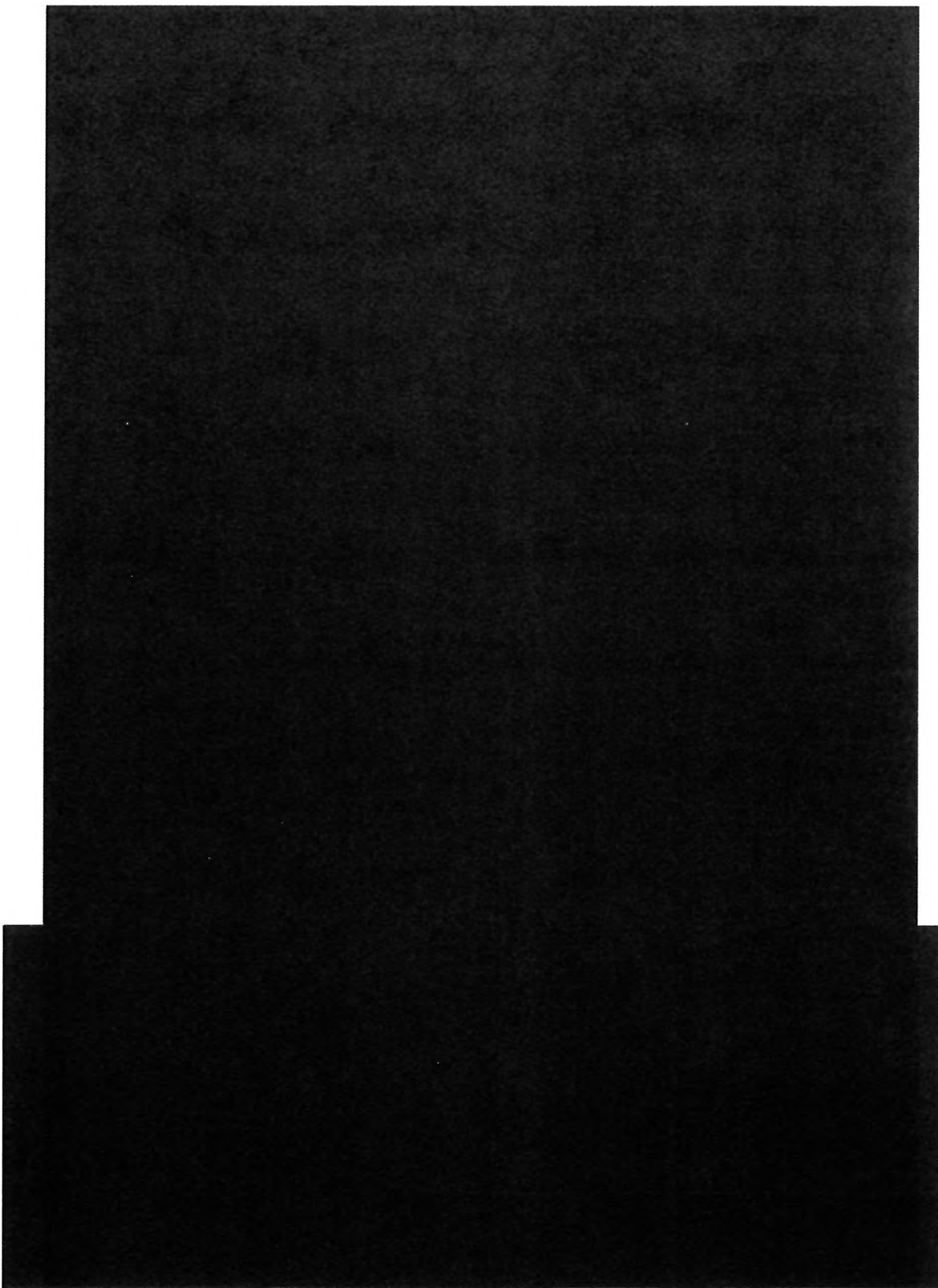


ITSC 1577

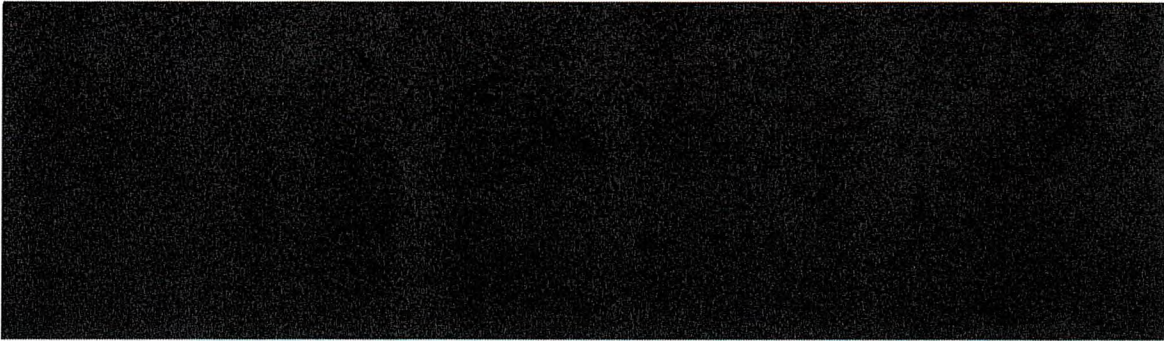
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TSC\_00004692

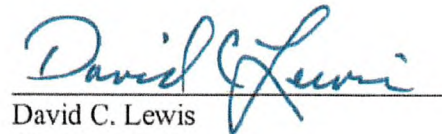




ITSC 1578



There being no further business to come before the Meeting, it was, upon a motion duly made and seconded, ADJOURNED.

  
David C. Lewis  
Corporate Secretary

ITSC 1579

## Amber Hogan

---

**From:** Steven Riggs  
**Sent:** Tuesday, August 14, 2018 10:25 AM  
**To:** Marjorie Rockwell  
**Cc:** Matt Appelman; Rob King  
**Subject:** RE: SCDOR

Thanks Marjorie. I have the audit submitted to Dana for review. Once the audit has been approved I'll email you the complete audit packet and we can get the ball rolling on the appeal process.

Thanks,

Steven Riggs  
Auditor  
Foreign Corporate Income Tax  
South Carolina Department of Revenue | [dor.sc.gov](http://dor.sc.gov)  
843.953.8349 | [steven.riggs@dor.sc.gov](mailto:steven.riggs@dor.sc.gov)

-----Original Message-----

From: Marjorie Rockwell <[mrockwell@TractorSupply.com](mailto:mrockwell@TractorSupply.com)>  
Sent: Tuesday, August 14, 2018 10:14 AM  
To: Steven Riggs <[Steven.Riggs@dor.sc.gov](mailto:Steven.Riggs@dor.sc.gov)>  
Cc: Matt Appelman <[mappelman@TractorSupply.com](mailto:mappelman@TractorSupply.com)>; Rob King <[Robert.King@dor.sc.gov](mailto:Robert.King@dor.sc.gov)>  
Subject: RE: SCDOR

Steven,

We are now in agreement with SC DOR's mathematical calculation for the combination approach. We are still not in agreement with the approach. Please let know if you need anything else.

-----Original Message-----

From: Steven Riggs <[Steven.Riggs@dor.sc.gov](mailto:Steven.Riggs@dor.sc.gov)>  
Sent: Friday, August 10, 2018 9:50 AM  
To: Marjorie Rockwell <[mrockwell@TractorSupply.com](mailto:mrockwell@TractorSupply.com)>  
Cc: Matt Appelman <[mappelman@TractorSupply.com](mailto:mappelman@TractorSupply.com)>; Rob King <[Robert.King@dor.sc.gov](mailto:Robert.King@dor.sc.gov)>  
Subject: RE: SCDOR

\*\*\*This is an EXTERNAL email. DO NOT open attachments or click links of unknown senders; if suspicious, click the "Report Phishing" button.\*\*\*

Marjorie,

Attached are the updated work papers showing the Eliminations column(FEI# [REDACTED] and should reflect in the combined FTI amount. The apportionment information is untouched.

Thanks again,

Steven Riggs  
Auditor  
Foreign Corporate Income Tax  
South Carolina Department of Revenue | dor.sc.gov  
843.953.8349 | steven.riggs@dor.sc.gov

-----Original Message-----

From: Marjorie Rockwell <mrockwell@TractorSupply.com>  
Sent: Tuesday, July 31, 2018 12:18 PM  
To: Steven Riggs <Steven.Riggs@dor.sc.gov>  
Cc: Matt Appelman <mappelman@TractorSupply.com>; Rob King <Robert.King@dor.sc.gov>  
Subject: RE: SCDOR

Steven,

I had hoped to get back to you on the initial calculations earlier this month, but that didn't happen. We are obviously not in agreement with a forced combination methodology or that SC has satisfied its burden to show that the statutory formula on TSC's returns doesn't fairly represent TSC's activity in SC. While we agree that forced combination can be suggested as an alternative and that SC has deemed forced combination an acceptable methodology, we are not in agreement that our current methodology is unfair.

As to the calculations presented by SC for our review, if combination were to be used, the eliminations must be considered as that is what removes the intercompany transactions between members. This would align with paragraph 3 on page 10 of RR15. The audit workpapers do not include the eliminations for income although they have been considered for the sales factor.

Please let me know if you have any questions. We look forward to next steps.

Thanks.

-----Original Message-----

From: Steven Riggs <Steven.Riggs@dor.sc.gov>  
Sent: Monday, June 25, 2018 9:48 AM  
To: Marjorie Rockwell <mrockwell@TractorSupply.com>  
Cc: Matt Appelman <mappelman@TractorSupply.com>; Rob King <Robert.King@dor.sc.gov>  
Subject: RE: SCDOR

**SOUTH CAROLINA DEPARTMENT OF REVENUE  
REVENUE AND REGULATORY OPERATIONS  
AUDIT DATA SHEET**

**General Audit Information:**Type Tax: Corporation Income Tax & License FeeAudit Control # \_\_\_\_\_

Taxpayer Name: Tractor Supply Company & Subs  
Address: 200 Powell Place  
 Brentwood, TN 37027

File # : 20459918-5  
FEI # : 13-3139732

Person to Receive Report: Marjorie Rockwell  
Address (if different)

Telephone # : 615-440-4227  
Fax # :  
Email: [mrockwell@tractorsupply.com](mailto:mrockwell@tractorsupply.com)

Dates of Audit: Started: 4/2/12 Completed:Report Date:Standard Industrial Code: 452900Report Agreed?Auditor's Last Name:ID #% Participation:Direct Time

KING

0659

100%

30

**Audit Results:**

| <u>Activity Code:</u> | <u>Acct # :</u> | <u>Period Covered:</u> | <u>Tax Assessed</u> | <u>Interest</u> | <u>Penalty</u> |
|-----------------------|-----------------|------------------------|---------------------|-----------------|----------------|
| 6036                  | 20459918-5      | 12/31/08 - 12/31/10    | 1,810,918           | 0               | 0              |
| 6034                  | 20459918-5      | 12/31/09 - 12/31/11    | 624                 | 0               | 0              |

Source of Audit: Ind SelectedStatute of Limitations:Waiver? NoExtended to: N/A**Other Taxpayer Information:**Does Taxpayer own another business? YesOther taxpayers audited? YesIs account delinquent? nSigned returns attached? NoWere Property Tax returns filed?Unusual Problems?Last SC Audit:Tax Assessed:Recommend Followup? YesWhy?

Large presence

Auditor's Signature: \_\_\_\_\_Date: \_\_\_\_\_Supervisor's Signature: \_\_\_\_\_Date: \_\_\_\_\_**SPECIAL NOTES:**



|                   |                     |                                         |              |
|-------------------|---------------------|-----------------------------------------|--------------|
| Name              |                     | Tractor Supply Company & Subs           |              |
| Address           |                     | 200 Powell Place<br>Brentwood, TN 37027 |              |
| Auditor           | 659                 | 100%                                    | Audit Number |
| Auditor           |                     |                                         |              |
| Auditor           |                     |                                         |              |
| SSN/FEI           | 13-3139732          |                                         |              |
| Corporation       | File Number         | 20459918-5                              |              |
| Amount Assessed   | 1,810,918           | Income Tax                              | 624          |
| Total Amount Paid | 12/31/08 - 12/31/10 |                                         |              |
| Reduced Refund    | 12/31/09 - 12/31/11 |                                         |              |
| SOL Expires       |                     |                                         |              |

|                                                                                                                                                                                             |  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
|  <div style="border: 1px solid black; padding: 5px; width: fit-content; margin-left: 10px;">Suspense</div> |  |
| Date:                                                                                                                                                                                       |  |
| 1) Of Report                                                                                                                                                                                |  |
| 2) To Review                                                                                                                                                                                |  |
| 3) 30 Day Letter                                                                                                                                                                            |  |
| 4) Protest Received                                                                                                                                                                         |  |
| 5) Assessed                                                                                                                                                                                 |  |
| 6) Paid                                                                                                                                                                                     |  |
| 7) To Warrant                                                                                                                                                                               |  |

**SOUTH CAROLINA DEPARTMENT OF REVENUE  
REPORT OF FIELD AUDIT: INCOME TAX & LICENSE FEE**

**TAXPAYER:** Tractor Supply Company & Subs  
**ADDRESS:** 200 Powell Place  
Brentwood, TN 37027

**FEI # :** 13-3139732  
**FILE # :** 20459918-5  
**PERIOD:** 12/31/14 - 12/31/16  
**DATE:** 2/21/22  
**AUDITOR:** KING

**INTEREST COMPUTED TO:**

| <u><b>INCOME TAX:</b></u>   |                          |                        |                       |                      |
|-----------------------------|--------------------------|------------------------|-----------------------|----------------------|
| <u><b>PERIOD ENDED:</b></u> | <u><b>INCOME TAX</b></u> | <u><b>INTEREST</b></u> | <u><b>PENALTY</b></u> | <u><b>TOTALS</b></u> |
| 12/31/14                    | \$588,688                |                        |                       | \$588,688            |
| 12/31/15                    | \$638,887                |                        |                       | \$638,887            |
| 12/31/16                    | \$583,343                |                        |                       | \$583,343            |
| <b>TOTALS</b>               | <b>\$1,810,918</b>       | <b>\$0</b>             | <b>\$0</b>            | <b>\$1,810,918</b>   |

| <u><b>LICENSE FEE:</b></u>  |                           |                        |                       |                      |
|-----------------------------|---------------------------|------------------------|-----------------------|----------------------|
| <u><b>PERIOD ENDED:</b></u> | <u><b>LICENSE FEE</b></u> | <u><b>INTEREST</b></u> | <u><b>PENALTY</b></u> | <u><b>TOTALS</b></u> |
| 12/31/11                    | \$611                     |                        |                       | \$611                |
| 12/31/10                    | \$3                       |                        |                       | \$3                  |
| 12/31/09                    | \$10                      |                        |                       | \$10                 |
| <b>TOTALS</b>               | <b>\$624</b>              | <b>\$0</b>             | <b>\$0</b>            | <b>\$624</b>         |

| <u><b>SUMMARY:</b></u> | <u><b>TAX</b></u>  | <u><b>INTEREST</b></u> | <u><b>PENALTY</b></u> | <u><b>TOTALS</b></u> |
|------------------------|--------------------|------------------------|-----------------------|----------------------|
| <b>INCOME TAX</b>      | \$1,810,918        | \$0                    | \$0                   | \$1,810,918          |
| <b>LICENSE FEE</b>     | 624                | 0                      | 0                     | 624                  |
| <b>TOTALS</b>          | <b>\$1,811,542</b> | <b>\$0</b>             | <b>\$0</b>            | <b>\$1,811,542</b>   |

Less: Amount Collected 0

Balance Due \$1,811,542

**SOUTH CAROLINA DEPARTMENT OF REVENUE  
RECOMPUTATION OF NET INCOME & TAX**

**TAXPAYER:** Tractor Supply Company & Subs  
**FILE #:** 20459918-5  
**PERIOD:** 12/31/08 - 12/31/10

**SCHEDULE:** A  
**AUDITOR:** KING

**DATE:** 2/21/22

**PERIOD ENDED:** 12/31/2016  
**Per Return**

|                                               | Tractor<br>Supply Co<br>13-3139732 | Tractor Supply<br>Co of Texas LP<br>62-1859500 | Tractor Supply<br>Co of Michigan LLC<br>62-1859500 | xx<br>Elimination | Combined<br>12/31/10   |
|-----------------------------------------------|------------------------------------|------------------------------------------------|----------------------------------------------------|-------------------|------------------------|
| <b>APPORTIONABLE INCOME PER RETURN:</b>       |                                    |                                                |                                                    |                   |                        |
| Schedule A and B - additions (per return)     | 138,467,788                        | 419,939,799                                    | 19,640,896                                         | 0                 | 578,048,483            |
| Schedule A and B - deductions (per return)    | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| Schedule A and B - deductions (per return)    | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| Allocated to SC and Other States (per return) | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| <b>ADJUSTMENTS: PER AUDIT</b>                 | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| <b>APPORTIONMENT INCOME AS ADJUSTED</b>       |                                    |                                                |                                                    |                   |                        |
| SC APPORTIONMENT RATIO                        | 138,467,788<br>0.0000%             | 419,939,799<br>0.0000%                         | 19,640,896<br>0.0000%                              | 0<br>0.0000%      | 578,048,483<br>2.8848% |
| SC PROPORTION                                 | 0                                  | 0                                              | 0                                                  | 0                 | 16,675,543             |
| ALLOCABLE TO SC                               |                                    |                                                |                                                    |                   |                        |
| SC NET INCOME                                 | 0                                  | 0                                              | 0                                                  | 0                 | 16,675,543             |
| CORPORATE TAX REDUCTION                       | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| SC NOL                                        | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| TAXABLE INCOME                                | 0                                  | 0                                              | 0                                                  | 0                 | 16,675,543             |
| TAX RATE                                      | 5%                                 | 5%                                             | 5%                                                 | 5%                | 5%                     |
| TAX DUE                                       | 0                                  | 0                                              | 0                                                  | 0                 | 833,777                |
| TAX CREDIT                                    | 22,646                             |                                                |                                                    |                   | 22,646                 |
| BALANCE                                       | 0                                  | 0                                              | 0                                                  | 0                 | 811,131                |
| TAX PREVIOUSLY PAID                           | (227,788)                          | 0                                              | 0                                                  | 0                 | (227,788)              |
| UNDERPAYMENT (OVERPAYMENT)                    | 0                                  | 0                                              | 0                                                  | 0                 | 583,343                |

**EXPLANATION OF ADJUSTMENTS:**

Tractor Supply Co, Tractor Supply Co of Texas LP, comprise a unitary group. A unitary group as used herein is defined as a business in which there is a high degree of interrelationship and interdependence among related entities so that the value of the business as a whole exceeds the sum of its individual elements. Generally, unitary groups share a unity of management, ownership, and control of operations resulting in unquantifiable flows of value among the related entities of the business.



SOUTH CAROLINA DEPARTMENT OF REVENUE  
RECOMPUTATION OF NET INCOME & TAX

TAXPAYER: Tractor Supply Company & Subs  
FILE #: 20459918-5  
PERIOD: 12/31/08 - 12/31/10

SCHEDULE: A  
AUDITOR: KING

DATE: 2/21/22

PERIOD ENDED: 12/31/2016  
Per Return

(1) Unitary Business Principle.

The Concept of a Unitary Business. A unitary business is a single economic enterprise that is made up either of separate parts of a single business entity or of a commonly controlled group of business entities that are sufficiently interdependent, integrated and interrelated through their activities so as to provide a synergy and mutual benefit that produces a sharing or exchange of value among them and a significant flow of value to the separate parts. This flow of value to a business entity located in this state that comes from being part of a unitary business conducted both within and without this State is what provides the constitutional due process "definite link and minimum connection" necessary for this state to apportion business income of the unitary business, even if that income arises in part from activities conducted outside the state. The business income of the unitary business is then apportioned to this state using an apportionment percentage provided by SECTION 12 6 2320

**SECTION 12 6 2320.** Allocation and apportionment of taxpayer's income when provisions unfairly represent taxpayer's business activity: agreement with taxpayer; provision for taxpayer constructing or operating qualified recycling facility.

(A) If the allocation and apportionment provisions of this chapter do not fairly represent the extent of the taxpayer's business activity in this State, the taxpayer may petition for, or the department may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

- (1) separate accounting;
- (2) the exclusion of one or more of the factors;
- (3) the inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in the State; or
- (4) the employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

**SECTION 12-54-85.** Time limitation for assessment of taxes or fees; exceptions.

(3) there is a twenty percent understatement of the total of all taxes required to be shown on the return or document. The taxes in this case may be assessed at any time within seventy-two months from the date the return or document was filed or due to be filed, whichever is later. For the purpose of this item, the total of all taxes required to be shown on the return is the total of all taxes required to be shown on the return before any reduction for estimated payments, withholding payments, other prepayments, or discount allowed for timely filing of the return and payment of the tax due, but that amount must be reduced by another credit that may be claimed on the return;

**SOUTH CAROLINA DEPARTMENT OF REVENUE  
RECOMPUTATION OF NET INCOME & TAX**

**TAXPAYER:** Tractor Supply Company & Subs  
**FILE # :** 20459918-5  
**PERIOD:** 12/31/08 - 12/31/10

**SCHEDULE: A**  
**AUDITOR: KING**

**DATE:** 2/21/22

**PERIOD ENDED:** Per Return  
**12/31/2015**

|                                               | Tractor<br>Supply Co<br>13-3139732 | Tractor Supply<br>Co of Texas LP<br>62-1859500 | Tractor Supply<br>Co of Michigan LLC<br>62-1859500 | xx<br>Elimination | Combined<br>12/31/09   |
|-----------------------------------------------|------------------------------------|------------------------------------------------|----------------------------------------------------|-------------------|------------------------|
| <b>APPORTIONABLE INCOME PER RETURN:</b>       |                                    |                                                |                                                    |                   |                        |
| Schedule A and B - additions (per return)     | 149,722,788                        | 428,793,915                                    | 29,303,413                                         | 0                 | 607,820,116            |
| Schedule A and B - deductions (per return)    | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| Schedule A and B - deductions (per return)    | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| Allocated to SC and Other States (per return) | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| <b>ADJUSTMENTS: PER AUDIT</b>                 | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| <b>APPORTIONMENT INCOME AS ADJUSTED</b>       |                                    |                                                |                                                    |                   |                        |
| SC APPORTIONMENT RATIO                        | 149,722,788<br>0.0000%             | 428,793,915<br>0.0000%                         | 29,303,413<br>0.0000%                              | 0<br>0.0000%      | 607,820,116<br>2.8190% |
| SC PROPORTION                                 | 0                                  | 0                                              | 0                                                  | 0                 | 17,134,449             |
| ALLOCABLE TO SC                               | 0                                  | 0                                              | 0                                                  | 0                 | 17,134,449             |
| SC NET INCOME                                 | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| CORPORATE TAX REDUCTION                       | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| SC NOL                                        | 0                                  | 0                                              | 0                                                  | 0                 | 0                      |
| TAXABLE INCOME                                | 0                                  | 0                                              | 0                                                  | 0                 | 17,134,449             |
| TAX RATE                                      | 5%                                 | 5%                                             | 5%                                                 | 5%                | 5%                     |
| TAX DUE                                       | 0                                  | 0                                              | 0                                                  | 0                 | 856,722                |
| TAX CREDIT                                    | 22,646                             |                                                |                                                    |                   | 22,646                 |
| BALANCE                                       | 0                                  | 0                                              | 0                                                  | 0                 | 834,076                |
| TAX PREVIOUSLY PAID                           | (195,189)                          | 0                                              | 0                                                  | 0                 | (195,189)              |
| UNDERPAYMENT (OVERPAYMENT)                    | 0                                  | 0                                              | 0                                                  | 0                 | 638,887                |

**EXPLANATION OF ADJUSTMENTS:**

Tractor Supply Co, Tractor Supply Co of Texas LP, comprise a unitary group. A unitary group as used herein is defined as a business in which there is a high degree of interrelationship and interdependence among related entities so that the value of the business as a whole exceeds the sum of its individual elements. Generally, unitary groups share a unity of management, ownership, and control of operations resulting in unquantifiable flows of value among the related entities of the business.



SOUTH CAROLINA DEPARTMENT OF REVENUE  
RECOMPUTATION OF NET INCOME & TAX

TAXPAYER: Tractor Supply Company & Subs  
FILE #: 20459918-5  
PERIOD: 12/31/08 - 12/31/10

SCHEDULE: A  
AUDITOR: KING

DATE: 2/21/22

PERIOD ENDED: 12/31/2015  
Per Return

(1) Unitary Business Principle.

The Concept of a Unitary Business. A unitary business is a single economic enterprise that is made up either of separate parts of a single business entity or of a commonly controlled group of business entities that are sufficiently interdependent, integrated and interrelated through their activities so as to provide a synergy and mutual benefit that produces a sharing or exchange of value among them and a significant flow of value to the separate parts. This flow of value to a business entity located in this state that comes from being part of a unitary business conducted both within and without this State is what provides the constitutional due process "definite link and minimum connection" necessary for this state to apportion business income of the unitary business, even if that income arises in part from activities conducted outside the state. The business income of the unitary business is then apportioned to this state using an apportionment percentage provided by SECTION 12 6 2320

**SECTION 12 6 2320.** Allocation and apportionment of taxpayer's income when provisions unfairly represent taxpayer's business activity; agreement with taxpayer; provision for taxpayer constructing or operating qualified recycling facility.

(A) If the allocation and apportionment provisions of this chapter do not fairly represent the extent of the taxpayer's business activity in this State, the taxpayer may petition for, or the department may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

- (1) separate accounting;
- (2) the exclusion of one or more of the factors;
- (3) the inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in the State; or
- (4) the employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

**SECTION 12-54-85.** Time limitation for assessment of taxes or fees; exceptions.

(3) there is a twenty percent understatement of the total of all taxes required to be shown on the return or document. The taxes in this case may be assessed at any time within seventy-two months from the date the return or document was filed or due to be filed, whichever is later. For the purpose of this item, the total of all taxes required to be shown on the return is the total of all taxes required to be shown on the return before any reduction for estimated payments, withholding payments, other prepayments, or discount allowed for timely filing of the return and payment of the tax due, but that amount must be reduced by another credit that may be claimed on the return;

**SOUTH CAROLINA DEPARTMENT OF REVENUE  
RECOMPUTATION OF NET INCOME & TAX**

**TAXPAYER:** Tractor Supply Company & Subs  
**FILE # :** 20459918-5  
**PERIOD:** 12/31/08 - 12/31/10

**SCHEDULE: A**  
**AUDITOR: KING**

**DATE:** 2/21/22

**PERIOD ENDED:** 12/31/2014  
**Per Return**

|                                               | Tractor<br>Supply Co<br>13-3139732 | Tractor Supply<br>Co of Texas LP<br>62-1859500 | Tractor Supply<br>Co of Michigan LLC<br>62-1859500 | xx<br>Elimination | Combined<br>12/31/08 |
|-----------------------------------------------|------------------------------------|------------------------------------------------|----------------------------------------------------|-------------------|----------------------|
| <b>APPORTIONABLE INCOME PER RETURN:</b>       |                                    |                                                |                                                    |                   |                      |
| Schedule A and B - additions (per return)     | 130,998,512                        | 403,580,608                                    | 36,426,666                                         | 0                 | 571,005,786          |
| Schedule A and B - additions (per return)     | 0                                  | 0                                              | 0                                                  | 0                 | 0                    |
| Schedule A and B - deductions (per return)    | 0                                  | 0                                              | 0                                                  | 0                 | 0                    |
| Allocated to SC and Other States (per return) | 0                                  | 0                                              | 0                                                  | 0                 | 0                    |
| <b>ADJUSTMENTS: PER AUDIT</b>                 | 0                                  | 0                                              | 0                                                  | 0                 | 0                    |
| <b>APPORTIONMENT INCOME AS ADJUSTED</b>       | 130,998,512                        | 403,580,608                                    | 36,426,666                                         | 0                 | 571,005,786          |
| <b>SC APPORTIONMENT RATIO</b>                 | <b>0.0000%</b>                     | <b>0.0000%</b>                                 | <b>0.0000%</b>                                     | <b>0.0000%</b>    | <b>2.7865%</b>       |
| <b>SC PROPORTION</b>                          | 0                                  | 0                                              | 0                                                  | 0                 | 15,911,076           |
| <b>ALLOCABLE TO SC</b>                        | 0                                  | 0                                              | 0                                                  | 0                 | 15,911,076           |
| <b>SC NET INCOME</b>                          | 0                                  | 0                                              | 0                                                  | 0                 | 0                    |
| <b>CORPORATE TAX REDUCTION</b>                | 0                                  | 0                                              | 0                                                  | 0                 | 0                    |
| <b>SC NOL</b>                                 | 0                                  | 0                                              | 0                                                  | 0                 | 0                    |
| <b>TAXABLE INCOME</b>                         | 0                                  | 0                                              | 0                                                  | 0                 | 15,911,076           |
| <b>TAX RATE</b>                               | 5%                                 | 5%                                             | 5%                                                 | 5%                | 5%                   |
| <b>TAX DUE</b>                                | 0                                  | 0                                              | 0                                                  | 0                 | 795,554              |
| <b>TAX CREDIT</b>                             | 22,646                             | 0                                              | 0                                                  | 0                 | 22,646               |
| <b>BALANCE</b>                                | 0                                  | 0                                              | 0                                                  | 0                 | 772,908              |
| <b>TAX PREVIOUSLY PAID</b>                    | (184,220)                          | 0                                              | 0                                                  | 0                 | (184,220)            |
| <b>UNDERPAYMENT (OVERPAYMENT)</b>             | 0                                  | 0                                              | 0                                                  | 0                 | 588,688              |

**EXPLANATION OF ADJUSTMENTS:**

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**SOUTH CAROLINA DEPARTMENT OF REVENUE  
RECOMPUTATION OF NET INCOME & TAX**

**TAXPAYER:** Tractor Supply Company & Subs  
**FILE # :** 20459918-5  
**PERIOD:** 12/31/08 - 12/31/10

**SCHEDULE:** A  
**AUDITOR:** KING

**DATE:** 2/21/22

**PERIOD ENDED:** 12/31/2014  
**Per Return**

**(1) Unitary Business Principle.**

The Concept of a Unitary Business. A unitary business is a single economic enterprise that is made up either of separate parts of a single business entity or of a commonly controlled group of business entities that are sufficiently interdependent, integrated and interrelated through their activities so as to provide a synergy and mutual benefit that produces a sharing or exchange of value among them and a significant flow of value to the separate parts. This flow of value to a business entity located in this state that comes from being part of a unitary business conducted both within and without this State is what provides the constitutional due process "definite link and minimum connection" necessary for this state to apportion business income of the unitary business, even if that income arises in part from activities conducted outside the state. The business income of the unitary business is then apportioned to this state using an apportionment percentage provided by SECTION 12 6 2320

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- (3) the inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in the State; or
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**Auditor Position**

1. Tractor Supply Company is the largest retail farm and ranch store chain in America which serves full and part time farmers and ranchers, hobby farmers, rural homeowners and contractors. They operate 1,150 stores in 45 states. They employ more than 17,000 team members and is headquartered in Brentwood, Tennessee. They are a publically traded company. They operate stores in South Carolina and file a corporate return for this entity.
2. Tractor Supply Co (FEI #13-3139732) - This is the operating entity for the retail stores of the consolidated group. They operate the majority of the stores except the one that fall under Tractor Supply Co of Michigan. They do not file a corporate return in South Carolina for this return.
3. Tractor Supply Co of Michigan (FEI #20-0313890) - This is the operating entity for the retail stores located in the state of Michigan in the consolidated group. They do not operate any stores in South Carolina. They file a corporate tax return for this entity in South Carolina.
4. Tractor Supply Co of Texas, LP (FEI # 62-1859500) - This entity is the sole and exclusive supplier of any and all merchandise inventory sold in TSC retail store locations. The markup per their intercompany agreement is to be in the range of 3.9% and 8.7%.
5. Tractor Supply Co of Texas owns the rights to the trade names, trademarks, service marks and other intangibles, hereinafter collectively referred to as the "Marks". They have agreed to charge for the licensing the trademarks and 5.5% and 10.4% including a charge for licensing the trademarks.
  - In the tax years under audit TSC of Texas waived the right to compensation for the licensing of the trademarks but agreed to keep the markup of 7.6% for procurement services.

Qualitative Distortion - The Support companies exist to support the operating company. The taxpayer is employing a common strategy to shift profits from the operating company with nexus, to the non-nexus support companies. The taxpayer supports this strategy with 482 study. However when unitary companies are involved, even this approach can be distortive, for such pricing fails to necessarily reflect the intangible value of the synergies present (regardless of whether the taxpayer is successful in showing that intercompany pricing is done at arms length).

Unitary Companies - There is a large degree of dependency between these companies. Tractor Supply Company is in the business of selling products to the general public. The separate support companies are necessary to carry out



the general public. The separate support companies are necessary to carry out the mission of these company, but the fact that the only reporting one segment of the business (the retail sales company) does not fairly represent the company activity as a whole in South Carolina. Excluding these necessary functions from the South Carolina reporting cannot fairly represent South Carolina activities.

The existence of the aforementioned subsidiaries and intercompany transactions distorts SC Taxable Income by understating the true income of the company by the shifting of income from the taxpayer to related parties through royalty payments, management fees, receivable factoring payments, service fees and interest. The structure of the operations also distorts the taxpayer's business in South Carolina by separating the intangible assets and services from the entities that depends on these items to generate income; this form offers little benefit to the company other than in the form of tax savings. This distortion is shown quantitatively in Exhibit 1 (attached). Due to this distortion, the current taxation of only the taxpayer using the conventional "Four-factor" apportionment ratio does not fairly represent the taxpayer's business in South Carolina. Due to the unitary nature of this company a combined report was prepared for the taxpayer and its unitary related entities to correct a distortion of South Carolina taxable income per SC Code section 12-6-2320(A):

"(A) If the allocation and apportionment provisions of this chapter do not fairly represent the extent of the taxpayer's business activity in this State, the taxpayer may petition for, or the department may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

- (1) separate accounting;
- (2) the exclusion of one or more of the factors;
- (3) the inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in the State; or
- (4) the employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income."

See also *Media General v. South Carolina Department of Revenue* for the authority of filing combined reports.

### **Other Comments**

### **Discussion of Distortion Ratios**

Return on Wages is calculated by dividing Federal Taxable Income by Cost of Labor. This ratio indicates that some entities in the combined group may distort



South Carolina income by having large taxable incomes with few or no employees adding value to the company. A very high ratio for an entity not filing in South Carolina may indicate that income is being shifted to such entity to avoid taxation in South Carolina, conversely, an entity with a very low ratio may be absorbing costs that would cause South Carolina income to be higher

than it would if that entity did not exist; both such transactions distort SC income to a degree. The return on wages for Tractor Supply Co. of Texas LP is drastically higher than that of Tractor Supply Co. See exhibit 1 Quantitative Distortion Analysis Ratios.

2. Profit Margin is calculated by dividing Federal Taxable Income by Gross Receipts; a zero profit margin indicates that a company has no gross receipts. An entity not filing in South Carolina with a higher ratio than those companies filing in SC may indicate that income is being shifted to non-nexus entities in an attempt to reduce SC income tax. The profit margin of TSC of Texas is six time higher than TSC. See exhibit 1 Quantitative Distortion Analysis Ratios.
3. Return on Sales is calculated by dividing Federal Taxable Income by Total Income. A higher return on sales ratio for a company not filing in South Carolina may indicate that income is being shifted away from nexus entities to related parties that do not have any true operating activities. This segregation of income distorts SC income by lowering the taxable income of the entities filing in South Carolina. The return on sales for TSC of Texas is much higher than that of TSC. See exhibit 1 Quantitative Distortion Analysis Ratios.
4. Return on Assets is calculated by dividing Federal Taxable Income by Total Assets. A higher return on assets ratio for a company not filing in South Carolina may indicate that income is being shifted away from nexus entities to related parties that do not have any true operating activities. This segregation of income distorts SC income by lowering the taxable income of the entities filing in South Carolina. The return on assets is much higher for TSC of Texas than for TSC. See exhibit 1 Quantitative Distortion Analysis Ratios.
5. Return on Equity is calculated by dividing the federal taxable income over the entity equity. A higher Return on Equity for a company not filing in South Carolina may indicate that income is being shifted away from nexus entities to parties that do not have any true operating activities. The return on equity is much higher for TSC of Texas than for TSC. See exhibit 1 Quantitative Distortion Analysis Ratios.

The final ratio shows each entity's federal taxable income as a percentage of the total federal taxable of the combined group. Similar, low ratios indicates



that taxable income may have been spread across several non-nexus entities to reduce SC income tax. TSC shows a much smaller percentage of their total federal taxable income than TSC of Texas. See exhibit 1 Quantitative Distortion Analysis Ratios.

7. The entity for Tractor Supply Co of Michigan was illustrated in the analysis but it was determined that there was no relationship between this entity and the State of South Carolina.

**South Carolina Department of Revenue**  
**Quantitative Distortion Analysis Ratios**

TAXPAYER:

Tractor Supply Company &amp; Subs

FILE # :

20459918-5

PERIOD:

12/31/08 - 12/31/10

SCHEDULE: Exhibit 1

AUDITOR: King

DATE: 2/21/22

12/31/2010

U.S. 1120 Line

|                                          | U.S. 1120 Line<br>Number | Tractor Supply<br>Co. |               | Tractor Supply<br>Co of Texas LP |            | Tractor Supply<br>Co of Michigan |            | N/A        |            | N/A        |            | N/A    |
|------------------------------------------|--------------------------|-----------------------|---------------|----------------------------------|------------|----------------------------------|------------|------------|------------|------------|------------|--------|
|                                          |                          | 13-3139732            | 62-1859500    | 20-0313890                       | 00-0000000 | 00-0000000                       | 00-0000000 | 00-0000000 | 00-0000000 | 00-0000000 | 00-0000000 |        |
| 1. Gross Receipts                        | 1c                       | 2,895,866,790         | 2,690,529,985 | 251,626,984                      | 0          | 0                                | 0          | 0          | 0          | 0          | 0          | 0      |
| 2. Total Income                          | 11                       | 861,054,106           | 295,591,675   | 61,378,622                       | 0          | 0                                | 0          | 0          | 0          | 0          | 0          | 0      |
| 3. Compensation of Officers              | 12                       | 27,720,351            | 40,771,522    | 0                                | 0          | 0                                | 0          | 0          | 0          | 0          | 0          | 0      |
| 4. Salaries and Wages                    | 13                       | 274,418,240           | 7,231,669     | 0                                | 0          | 0                                | 0          | 0          | 0          | 0          | 0          | 0      |
| 5. Total Expenses                        | 27                       | 816,649,405           | 116,956,709   | 47,344,908                       | 0          | 0                                | 0          | 0          | 0          | 0          | 0          | 0      |
| 6. Taxable Income                        | 30                       | 44,398,122            | 178,634,966   | 14,033,714                       | 0          | 0                                | 0          | 0          | 0          | 0          | 0          | 0      |
| 7. Labor included in COGS                | Sch A Line 3             | 0                     | 0             | 0                                | 0          | 0                                | 0          | 0          | 0          | 0          | 0          | 0      |
| 8. Total Assets                          | Sch L Line 15            | 1,341,514,953         | 199,873,005   | 126,148,157                      | 0          | 0                                | 0          | 0          | 0          | 0          | 0          | 0      |
| 9. Total Equity                          | Sch L Lines 22-27        | 731,937,823           | 710,977,484   | 152,048,855                      | 0          | 0                                | 0          | 0          | 0          | 0          | 0          | 0      |
| Return on Equity (FTI/Equity)            |                          | 6.066%                | 25.125%       | 9.230%                           | 0.000%     | 0.000%                           | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000% |
| Return on Wages (FTI/Cost of Labor)      |                          | 14.695%               | 372.131%      | 0.000%                           | 0.000%     | 0.000%                           | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000% |
| Return on Assets (FTI/Total Assets)      |                          | 3.310%                | 89.374%       | 11.125%                          | 0.000%     | 0.000%                           | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000% |
| Profit Margin (FTI/Gross Receipts)       |                          | 1.533%                | 6.639%        | 5.577%                           | 0.000%     | 0.000%                           | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000% |
| Return on Sales (FTI/Total Income)       |                          | 5.156%                | 60.433%       | 22.864%                          | 0.000%     | 0.000%                           | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000% |
| Efficiency Ratio (Expenses/Total Income) |                          | 94.843%               | 39.567%       | 77.136%                          | 0.000%     | 0.000%                           | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000% |
| %age of Consol. Group FTI (FTI/Consol. I |                          | 18.728%               | 75.352%       | 5.920%                           | 0.000%     | 0.000%                           | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000% |

ROA\_004483

SCDOR\_006957

**South Carolina Department of Revenue  
Quantitative Distortion Analysis Ratios**

TAXPAYER:

FILE # :

PERIOD:

Tractor Supply Company &amp; Subs

20459918-5

12/31/08 - 12/31/10

SCHEDULE: Exhibit 1

AUDITOR: King

DATE: 2/21/22

12/31/2009

**Tractor Supply Co. of Texas LP Co of Michigan Tractor Supply**

| U.S. 1120 Line Number                    | Co. 13-3139732 | Co of Texas LP 62-1859500 | Co of Michigan 20-0313890 | N/A 00-0000000 | N/A 00-0000000 | N/A 00-0000000 |
|------------------------------------------|----------------|---------------------------|---------------------------|----------------|----------------|----------------|
| 1. Gross Receipts                        | 2,518,417,009  | 2,304,223,414             | 235,652,611               | 0              | 0              | 0              |
| 2. Total Income                          | 722,287,435    | 248,482,862               | 56,376,438                | 0              | 0              | 0              |
| 3. Compensation of Officers              | 11,391,715     | 0                         | 0                         | 0              | 0              | 0              |
| 4. Salaries and Wages                    | 211,177,925    | 34,298,134                | 0                         | 0              | 0              | 0              |
| 5. Total Expenses                        | 679,296,487    | 100,751,299               | 45,687,549                | 0              | 0              | 0              |
| 6. Taxable Income                        | 42,990,943     | 147,730,229               | 10,688,889                | 0              | 0              | 0              |
| 7. Labor included in COGS                | 0              | 0                         | 0                         | 0              | 0              | 0              |
| 8. Total Assets                          | 1,147,118,866  | 136,397,080               | 107,220,070               | 0              | 0              | 0              |
| 9. Total Equity                          | 580,933,388    | 587,600,155               | 143,102,418               | 0              | 0              | 0              |
| Return on Equity (FTI/Equity)            | 7.400%         | 25.141%                   | 7.469%                    | 0.000%         | 0.000%         | 0.000%         |
| Return on Wages (FTI/Cost of Labor)      | 19.316%        | 430.724%                  | 0.000%                    | 0.000%         | 0.000%         | 0.000%         |
| Return on Assets (FTI/Total Assets)      | 3.748%         | 108.309%                  | 9.969%                    | 0.000%         | 0.000%         | 0.000%         |
| Profit Margin (FTI/Gross Receipts)       | 1.707%         | 6.411%                    | 4.536%                    | 0.000%         | 0.000%         | 0.000%         |
| Return on Sales (FTI/Total Income)       | 5.952%         | 59.453%                   | 18.960%                   | 0.000%         | 0.000%         | 0.000%         |
| Efficiency Ratio (Expenses/Total Income) | 94.048%        | 40.547%                   | 81.040%                   | 0.000%         | 0.000%         | 0.000%         |
| %age of Consol. Group FTI (FTI/Consol. I | 21.345%        | 73.348%                   | 5.307%                    | 0.000%         | 0.000%         | 0.000%         |

ROA\_004484

SCDOR\_006958



**South Carolina Department of Revenue  
Quantitative Distortion Analysis Ratios**

TAXPAYER:

Tractor Supply Company &amp; Subs

FILE #:

20459918-5

PERIOD:

12/31/08 - 12/31/10

SCHEDULE: Exhibit 1

AUDITOR: King

DATE: 2/21/22

1/31/2008

|                                          | U.S. 1120 Line<br>Number | Tractor Supply Co. |               |             | Tractor Supply Co of Texas LP |            |            | Tractor Supply Co of Michigan |            |            | N/A        |            |            | N/A        |            |            | N/A        |            |            |
|------------------------------------------|--------------------------|--------------------|---------------|-------------|-------------------------------|------------|------------|-------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                                          |                          | 13-3139732         | 62-185950     | 20-0313890  | 00-0000000                    | 00-0000000 | 00-0000000 | 00-0000000                    | 00-0000000 | 00-0000000 | 00-0000000 | 00-0000000 | 00-0000000 | 00-0000000 | 00-0000000 | 00-0000000 | 00-0000000 | 00-0000000 | 00-0000000 |
| 1. Gross Receipts                        | 1c                       | 2,312,411,354      | 2,113,783,917 | 234,602,277 |                               |            |            |                               |            |            |            |            |            |            |            |            |            |            |            |
| 2. Total Income                          | 11                       | 659,697,138        | 239,266,620   | 52,767,299  |                               |            |            |                               |            |            |            |            |            |            |            |            |            |            |            |
| 3. Compensation of Officer               | 12                       | 5,135,059          | 0             | 0           |                               |            |            |                               |            |            |            |            |            |            |            |            |            |            |            |
| 4. Salaries and Wages                    | 13                       | 229,396,954        | 30,402,007    | 0           |                               |            |            |                               |            |            |            |            |            |            |            |            |            |            |            |
| 5. Total Expenses                        | 27                       | 681,202,011        | 96,864,349    | 46,036,854  |                               |            |            |                               |            |            |            |            |            |            |            |            |            |            |            |
| 6. Taxable Income                        | 30                       | (21,507,272)       | 142,397,523   | 6,730,445   |                               |            |            |                               |            |            |            |            |            |            |            |            |            |            |            |
| 7. Labor included in COGS                | Sch A Line 3             | 0                  | 0             | 0           |                               |            |            |                               |            |            |            |            |            |            |            |            |            |            |            |
| 8. Total Assets                          | Sch L Line 15            | 984,284,748        | 137,818,430   | 108,741,184 |                               |            |            |                               |            |            |            |            |            |            |            |            |            |            |            |
| 9. Total Equity                          | Sch L Lines 22-27        | 517,267,546        | 505,752,698   | 137,862,054 |                               |            |            |                               |            |            |            |            |            |            |            |            |            |            |            |
| Return on Equity (FTI/Equity)            |                          | -4.158%            | 28.156%       | 4.882%      | 0.000%                        | 0.000%     | 0.000%     | 0.000%                        | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     |
| Return on Payroll (FTI/Cost of Labor)    |                          | -9.170%            | 468.382%      | 0.000%      | 0.000%                        | 0.000%     | 0.000%     | 0.000%                        | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     |
| Return on Assets (FTI/Total Assets)      |                          | -2.185%            | 103.323%      | 6.189%      | 0.000%                        | 0.000%     | 0.000%     | 0.000%                        | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     |
| Profit Margin (FTI/Gross Receipts)       |                          | -0.930%            | 6.737%        | 2.869%      | 0.000%                        | 0.000%     | 0.000%     | 0.000%                        | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     |
| Return on Sales (FTI/Total Income)       |                          | -3.260%            | 59.514%       | 12.755%     | 0.000%                        | 0.000%     | 0.000%     | 0.000%                        | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     |
| Efficiency Ratio (Expenses/Total Income) |                          | 103.260%           | 40.484%       | 87.245%     | 0.000%                        | 0.000%     | 0.000%     | 0.000%                        | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     |
| %age of Consol. Group FTI (FTI/Consol. I |                          | -16.852%           | 111.579%      | 5.274%      | 0.000%                        | 0.000%     | 0.000%     | 0.000%                        | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     | 0.000%     |

ROA\_004485

SCDOR\_006959

**South Carolina Department of Revenue  
Quantitative Distortion Analysis Ratios**

TAXPAYER:  
FILE # :  
PERIOD:

Tractor Supply Company & Subs  
20459918-5  
12/31/08 - 12/31/10

SCHEDULE: Exhibit 1  
AUDITOR: King  
DATE: 2/21/22

ROA\_004486

SCDOR\_006960

TAXPAYER:  
FILE # :  
PERIOD:

SCHEDULE:  
AUDITOR:  
DATE:

**SCHEDULE H-4 COMPUTATION OF SINGLE FACTOR APPORTIONMENT**  
**Single Factor Apportionment Ratio Schedule**

**SCHEDULE H-4 COMPUTATION OF SINGLE FACTOR APPORTIONMENT**  
**Single Factor Apportionment Ratio Schedule**

For The Period(s) Ended

|                                        |         |               |               |               |
|----------------------------------------|---------|---------------|---------------|---------------|
| 1. Total Sales Within SC               | 0       | 51,985,682    | 60,407,871    | 72,696,354    |
| 2. Total Sales Everywhere              | 0       | 2,778,797,025 | 2,976,488,546 | 3,392,399,456 |
| 3. Ratio (South Carolina / Everywhere) | #DIV/0! | 1.8708%       | 2.0295%       | 2.1429%       |

Computation Of South Carolina Net Income Subject To Tax For Multi-State Corporation  
Qualifying For Single Factor Apportionment - Part 1

|                                                                                                                                              | 12/31/2007 | 12/31/2008 | 12/31/2009 | 12/31/2010 | REF |
|----------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|------------|------------|-----|
| 1. Enter Amount From Schedule G Line 3                                                                                                       | #REF!      | 15,911.076 | 17,134.449 | 16,675.543 |     |
| 2. Enter The Ratio From Sch H-1 Line 17                                                                                                      | 1.7327%    | 2.7865%    | 2.8190%    | 2.8848%    |     |
| 3. Multiply Line 2 By Line 1                                                                                                                 | #REF!      | 443.362    | 483.020    | 481.056    |     |
| 4. Enter ratio from line 3 of single factor apportionment schedule                                                                           | #DIV/0!    | 1.8708%    | 2.0295%    | 2.1429%    |     |
| 5. Enter ratio from line 3 of line 5, STOP HERE and enter amount from line 3, Schedule H-4, Part 1 on Schedule G, Line 4.                    | #REF!      | 347.744    | 297.664    | 357.343    |     |
| 6. Line 3 minus Line 5                                                                                                                       | #REF!      | 145.698    | 135.276    | 123.713    |     |
| 7. For tax year 2008, multiply this amount on line 6 by 40% ( .40 ). This is the amount of reduction in SC Taxable Income allowed this year. | #REF!      | 58.279     | 81.166     | 98.970     |     |
| 8. Line 3 minus line 7. Enter this amount on Schedule G Line 4.                                                                              | #REF!      | 385.083    | 401.854    | 382.086    |     |

Computation Of License Fee - Multi-State Corporation  
Qualifying For Single Factor Apportionment - Part 2

|                                                                                                                                                                                 | 1/31/2009 | 1/31/2010         | 1/31/2011      | 1/31/2012        | REF |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------------|----------------|------------------|-----|
| 1. Total Capital And Paid In Surplus at the end of the year. If \$10,000 or less stop here and enter on schedule E Line 2.                                                      | n/a       | <b>38,772,030</b> | <b>875,100</b> | <b>1,233,807</b> |     |
| 2. Enter the ratio from Sch H-1, Line 17                                                                                                                                        | n/a       | 2.7865%           | 2.8190%        | 2.8648%          |     |
| 3. Multiply Line 1 By Line 2. If \$10,000 or less STOP HERE and enter on schedule E, Line 2                                                                                     |           | #VALUE!           | 24,669         | 35,593           |     |
| 4. Enter the ratio from Line 3 of the single factor apportionment schedule.                                                                                                     | n/a       | 1.8708%           | 2.0295%        | 2.1429%          |     |
| 5. Multiply Ln 1 By Ln 4. <b>If Ln 3 is less than in 5, STOP HERE and enter amount from Ln 3, on Sch E-2, Ln 2</b>                                                              |           | #VALUE!           | 17,760         | 26,439           |     |
| 6. Line 3 minus Line 5                                                                                                                                                          |           | #VALUE!           | 6,909          | 9,153            |     |
| 7. For tax year 2008, multiply the amount on in 6 by 40%. For tax year 2007, multiply the amount on in 6 by 20%.<br>Line 3 minus line 7. Enter this amount on Schedule E Line 2 |           | #VALUE!           | 4,145          | 7,323            |     |
|                                                                                                                                                                                 |           | #VALUE!           | 20,524         | 28,270           |     |

Auditor Position

To compute the South Carolina apportionable income and license fee

### Schedule Reference

APPORTIONMENT RATIO PER SCHEDULE H-1 **AS ADJUSTED** - SEE AUDIT SCHEDULE F

|                                                       | 9/30/2008 | 9/30/2009 | 9/30/2010 |
|-------------------------------------------------------|-----------|-----------|-----------|
| Property:                                             |           |           |           |
| In South Carolina                                     |           |           |           |
| All Property                                          |           |           |           |
| Gross Receipts Ratio                                  | 0         | 0         | 0         |
| Payroll:                                              |           |           |           |
| In South Carolina                                     |           |           |           |
| All Payroll                                           |           |           |           |
| Gross Receipts Ratio                                  | 0         |           | 0         |
| Sales:                                                |           |           |           |
| In South Carolina                                     |           |           |           |
| All Sales                                             |           |           |           |
| Gross Receipts Ratio                                  | N/A       | N/A       | N/A       |
| Total Of Ratios:                                      |           |           |           |
| Arithmetical Average Of Ratios - Schedule H-1 Line 17 | N/A       | N/A       | N/A       |
| Per Return Filed With the Supplement Fact (2 of 1)    | 0.00000%  | 0.00000%  | 0.00000%  |
| Tractor                                               |           |           |           |



**SOUTH CAROLINA DEPARTMENT OF REVENUE  
RECOMPUTATION OF LICENSE FEE**

**TAXPAYER:** Tractor Supply Company & Subs      **SCHEDULE:** C  
**FILE #:** 20459918-5      **AUDITOR:** KING  
**PERIOD:** 12/31/09 - 12/31/11

**DATE:** 2/21/22

| <b>PERIOD ENDED:</b>              | <b>12/31/11</b> | <b>12/31/10</b> | <b>12/31/09</b> |
|-----------------------------------|-----------------|-----------------|-----------------|
| STOCK                             | 1,233,807       | 875,100         | 907,584         |
| PAID IN CAPITAL                   | 0               | 0               | 37,864,446      |
| TOTAL CAPITAL & PD. IN SURPLUS    | 1,233,807       | 875,100         | 38,772,030      |
| SC APPORTIONMENT RATIO            | <b>1.9662%</b>  | <b>1.9148%</b>  | <b>1.7327%</b>  |
| SC PROPORTION                     | 24,258          | 16,757          | 671,803         |
| LICENSE FEE RATE                  | 0.001           | 0.001           | 0.001           |
| LICENSE FEE DUE                   | 24              | 17              | 672             |
| ADDL. LICENSE FEE (12-20-50)      | 15              | 15              | 15              |
| TOTAL LICENSE FEE (\$25 MIN.)     | 39              | 32              | 687             |
| LESS: LICENSE FEE PAID            | (29)            | (29)            | (76)            |
| TAX CREDITS                       |                 |                 |                 |
| <b>UNDERPAYMENT (OVERPAYMENT)</b> | <b>10</b>       | <b>3</b>        | <b>611</b>      |

**EXPLANATION:**

LICENSE FEE IS BASED ON CAPITAL STOCK AND "PAID IN SURPLUS" PER SECTION 12-20-50 (PREVIOUSLY 12-19-70) SC CODE OF LAWS. SC PROPORTION OF CAPITAL STOCK AND PAID IN SURPLUS IS DETERMINED IN ACCORDANCE WITH THE RATIOS PRESCRIBED FOR THE PURPOSES OF THE INCOME TAX PER SECTION 12-20-80 (PREVIOUSLY 12-19-80) SC CODE OF LAWS.

Tractor Supply Co, Tractor Supply Co of Texas LP, comprise a unitary group. A unitary group as used herein is defined as a business in which there is a high degree of interrelationship and interdependence among related entities so that the value of the business as a whole exceeds the sum of its individual elements. Generally, unitary groups share a unity of management, ownership, and control of operations resulting in unquantifiable flows of value among the related entities of the business.

**SOUTH CAROLINA DEPARTMENT OF REVENUE  
RECOMPUTATION OF LICENSE FEE**

**TAXPAYER:** Tractor Supply Company & Subs      **SCHEDULE:** C  
**FILE # :** 20459918-5      **AUDITOR:** KING  
**PERIOD:** 12/31/09 - 12/31/11

**DATE:** 2/21/22

**SECTION 12-6-2320.** Allocation and apportionment of taxpayer's income when provisions unfairly represent taxpayer's business activity; agreement with taxpayer; provision for taxpayer constructing or operating qualified recycling facility.

(A) If the allocation and apportionment provisions of this chapter do not fairly represent the extent of the taxpayer's business activity in this State, the taxpayer may petition for, or the department may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

- (1) separate accounting;
- (2) the exclusion of one or more of the factors;
- (3) the inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in the State; or
- (4) the employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

**SECTION 12-54-85.** Time limitation for assessment of taxes or fees; exceptions.

- (3) there is a twenty percent understatement of the total of all taxes required to be shown on the return or document. The taxes in this case may be assessed at any time within seventy-two months from the date the return or document was filed or due to be filed, whichever is later. For the purpose of this item, the total of all taxes required to be shown on the return is the total of all taxes required to be shown on the return before any reduction for estimated payments, withholding payments, other prepayments, or discount allowed for timely filing of the



Taxpayer: Tractor Supply Company & Sut Schedule:  
 File#: 20459918-5 Auditor: KING  
 Period: 12/31/08 - 12/31/10 Date: 2/21/22  
 Period Ended: 12/31/10 12/31/09 12/31/08

|                            |         |         |         |
|----------------------------|---------|---------|---------|
| Property Ratio             | 2.1302% | 2.0315% | 1.9509% |
| Payroll Ratio              | 1.4486% | 1.5688% | 1.2383% |
| Sales Ratio                | 2.1429% | 2.0295% | 1.8708% |
| Sales Ratio                | 2.1429% | 2.0295% | 1.8708% |
| Total of Four Ratios       | 7.8646% | 7.6593% | 6.9308% |
| Average of the Four Ratios | 1.9662% | 1.9148% | 1.7327% |

**EXPLANATION:**  
 TO COMPUTE THE FOUR FACTOR APPORTIONMENT RATIO IN  
 ACCORDANCE WITH SECTION 12-6-2240 SC CODE OF LAWS.  
 SEE ATTACHED SCHEDULE(S).

**SOUTH CAROLINA DEPARTMENT OF REVENUE  
RECOMPUTATION OF SALES RATIO**

**Taxpayer:** Tractor Supply Company & Subs      **Schedule:** KING  
**File#:** 20459918-5      **Auditor:** 2/21/22  
**Period:** 12/31/08 - 12/31/10      **Date:**

**Period Ended:**      12/31/10      12/31/09      12/31/08

SC Sales Per Return      72,696,354      60,407,871      51,985,682  
**Adjustments:**  
Tractor Supply of Michigan      0      0      0

SC Sales-Adjusted:      72,696,354      60,407,871      51,985,682

Total Sales Per Return      Sales      3,638,335,539      3,206,937,639      3,007,948,612  
Dividends      9,399      1,912      10,210  
Interest      92,760      18,464      146,981  
Rents      68,296      81,272      51,557  
Royalties      0      0      0  
Other Income      5,520,446      5,101,870      5,241,942

**Adjustments:**  
Tractor Supply of Michigan      (251,626,984)      (235,652,611)      (234,602,277)  
Total Sales-Adjusted:      3,392,399,456      2,976,488,546      2,778,797,025

SC Sales Ratio Adjusted:      2.1429%      2.0295%      1.8708%

**Sales Ratios**      2.1429%      2.0295%      1.8708%

**EXPLANATION:**  
TO COMPUTE THE SALES RATIO IN ACCORDANCE WITH SECTION  
12-6-2280 (PREVIOUSLY 12-7-1170) SC CODE OF LAWS.

SalesRatio (COMBINED)

**SOUTH CAROLINA DEPARTMENT OF REVENUE  
RECOMPUTATION OF PAYR**

**Taxpayer:** Tractor Supply Company & Subs  
**File#:** 20459918-5  
**Period:** 12/31/08 - 12/31/10

| <b>Period Ended:</b>       | <b>12/31/10</b>      | <b>12/31/09</b>      | <b>12/31/08</b>      |
|----------------------------|----------------------|----------------------|----------------------|
| SC Payroll Per Return      | \$4,565,895          | \$3,851,080          | \$3,217,057          |
| Adjustments: subtract      |                      |                      |                      |
| Tractor Supply of Michigan | \$0                  | \$0                  | \$0                  |
| SC Payroll-Adjusted:       | <u>\$4,565,895</u>   | <u>\$3,851,080</u>   | <u>\$3,217,057</u>   |
| Total Payroll Per Return   | \$315,189,762        | \$245,476,059        | \$259,799,197        |
| Adjustments:               |                      |                      |                      |
| Tractor Supply of Michigan | 0                    | 0                    | 0                    |
| Total Payroll-Adjusted:    | <u>\$315,189,762</u> | <u>\$245,476,059</u> | <u>\$259,799,197</u> |
| SC Payroll Ratio Adjusted: | <u>1.4486%</u>       | <u>1.5688%</u>       | <u>1.2383%</u>       |
| <b>Payroll Ratios</b>      | <b>1.4486%</b>       | <b>1.5688%</b>       | <b>1.2383%</b>       |

**EXPLANATION:**  
 TO COMPUTE THE PAYROLL RATIO IN ACCORDANCE WITH SECTION  
 12-6-2270 (PREVIOUSLY 12-7-1160) SC CODE OF LAWS.

PayrollRatio(COMBINED)

**SOUTH CAROLINA DEPARTMENT OF REVENUE  
RECOMPUTATION OF PROPERTY RATIO**

Taxpayer: **Tractor Supply Company & Subs**      Schedule: **KING**  
 File#: **20459918-5**      Auditor: **2/21/22**  
 Period: **12/31/08 - 12/31/10**      Date: **2/21/22**

Period Ended:      12/31/07      12/31/08      12/31/09      12/31/10

SC Property Per Return  
 Tractor Supply Co      \$17,494,278      \$16,292,841      \$19,089,811      \$22,422,150  
 Tractor supply Co of Texas      \$0      \$0      \$0      \$0

Total  
 Average Property      \$17,494,278      \$16,292,841      \$19,089,811      \$22,422,150  
 Rents X 8      #REF!      \$16,893,560      \$17,691,326      \$20,755,981  
 Rents X 8      TSC      \$0      \$22,479,856      \$27,456,848      \$30,460,192  
 Rents X 8      TST      \$0      \$49,533,360      \$0      \$0  
 SC Property-Adjusted:      #REF!      \$39,373,416      \$45,148,174      \$51,216,173

Total Property Per Return  
 Tractor Supply Co      \$880,600,126      \$950,336,205      \$1,019,925,342      \$1,106,016,157  
 Tractor supply Co of Texas      \$151,775,179      \$168,795,344      \$168,908,052      \$189,354,736

Total  
 Average Property      \$1,032,375,305      \$1,119,131,549      \$1,188,833,394      \$1,295,370,893  
 Rents X 8      #REF!      \$1,075,753,427      \$1,153,982,472      \$1,242,102,144  
 Rents X 8      TSC      \$0      \$942,444,144      \$1,068,475,472      \$1,162,184,384  
 Rents X 8      TST      \$0      \$159,873,232      \$167,888,792      \$173,709,568  
 Everywhere Property-Adjusted:      #REF!      \$2,018,197,571      \$2,222,457,944      \$2,404,286,528

SC Property Ratio-Adjusted      #REF!      1.9509%      2.0315%      2.1302%

Property ratios      0.0000%      1.9509%      2.0315%      2.1302%

**EXPLANATION:**  
 TO COMPUTE THE PROPERTY RATIO IN ACCORDANCE WITH SECTION 12-6-2260  
 (PREVIOUSLY 12-7-1150) SC CODE OF LAWS.



## **Workpapers**

- 1) audit letter**
- 2) transcript**
- 3) Federal consolidated Statements**
- 4) Intercompany Agreements**
- 5) copy of South Caolina returns**

**DIVIDEND INCOME**

DIVIDENDS RECEIVED FROM CORPORATE STOCKS OWNED, LESS ALL RELATED EXPENSES, SHALL BE ALLOCATED TO THE STATE IN WHICH THE PRINCIPAL PLACE OF BUSINESS OF A CORPORATION IS LOCATED. SECTION 12-6-2220(2) CLSC.

**NEXUS FOR "GEOFFREY" TYPE COMPANY**

TAXPAYERS LICENSING OR USING TRADEMARKS AND OTHER INTANGIBLE PROPERTY AND PURPOSELY SEEKING THE BENEFIT OF ECONOMIC CONTACT WITH SOUTH CAROLINA ARE CONDUCTING BUSINESS IN THIS STATE AND ARE REQUIRED TO PAY AN INCOME TAX AND LICENSE FEE. SECTION 12-6-530, 12-6-2210, 12-20-20 THROUGH 12-20-60 SC CODE OF LAWS. ALSO SEE GEOFFREY, INC. V. SOUTH CAROLINA TAX COMMISSION, S.C. , 437 S. E. 2d. 13, cert. den. 114 S.Ct. 550 (1993).

**DIVIDEND INCOME - RELATED EXPENSES**

DIVIDENDS RECEIVED FROM CORPORATE STOCKS OWNED ARE ALLOCATED NET OF RELATED EXPENSES. SECTION 12-6-2220(2) CLSC.

RELATED EXPENSES AS USED IN SECTION 12-7-1120 SHALL MEAN ANY COSTS INCURRED DIRECTLY OR INDIRECTLY IN CONNECTION WITH OTHER INVESTMENTS, INCLUDING SUBSIDIARIES, FOR THE PRODUCTION OF INCOME OR FUTURE INCOME, WHICH IS OR WILL BE SPECIFICALLY AND DIRECTLY ALLOCATED UNDER THIS SECTION OR COSTS INCURRED IN THE AQUISITION, SALE OR EXCHANGE OF REAL, TANGIBLE OR INTANGIBLE PROPERTY, SHALL BE ALLOCATED IN ACCORDANCE WITH THE SC CODE OF LAWS. SEE SC REVENUE DECISION ID-309, SC REGULATION 117-73, AND AVCO CORPORATION Vs. SOUTH CAROLINA DEPARTMENT OF REVENUE.

NOTE: IN LIEU OF ACTUAL RELATED EXPENSES, THE "DC" FORMULA IS BEING USED TO COMPUTE RELATED EXPENSES.

**AMENDED FEDERAL RETURN**

THIS ADJUSTMENT IS TO CORRECT THE FEDERAL NET INCOME DUE TO AMENDMENTS TO THE US1120 WHICH WAS USED AS THE STARTING POINT IN COMPUTING SOUTH CAROLINA TAXABLE NET INCOME. SECTION 12-6-580 CLSC.

**TAXES-ENVIRONMENTAL**

TAXES ON INCOME, WITH RESPECT TO NET INCOME OR MEASURED BY NET INCOME ARE NOT DEDUCTIBLE IN COMPUTING SOUTH CAROLINA NET INCOME. SECTION 12-6-1130(2) CLSC.

**FEDERAL EXEMPT INTEREST**

THE EXCLUSION FROM GROSS INCOME AUTHORIZED BY INTERNAL REVENUE CODE SECTION 103 IS MODIFIED TO EXEMPT ONLY INTEREST UPON OBLIGATIONS OF THIS STATE AND ANY OF ITS POLITICAL SUBDIVISIONS. SECTION 12-6-1120(1) CLSC.

**FEDERAL NET INCOME**

THIS ADJUSTMENT IS TO CORRECT THE FEDERAL NET INCOME WHICH WAS USED AS THE STARTING POINT IN COMPUTING THE SOUTH CAROLINA NET INCOME. SECTION 12-6-580 CLSC.

**FEDERAL NET OPERATING LOSS**

THE FEDERAL NOL IS NOT DEDUCTIBLE; ONLY THE SOUTH CAROLINA NOL IS



ALLOWED. SECTION 12-6-1130(4) CLSC.

#### **REVENUE AGENT'S REPORT**

THIS ADJUSTMENT IS TO CORRECT THE FEDERAL NET INCOME WHICH WAS USED AS THE STARTING POINT IN COMPUTING THE SOUTH CAROLINA NET INCOME. THE ADJUSTMENT IS TO AN INTERNAL REVENUE AGENT'S REPORT. SECTION 12-6-580 CLSC.

#### **TAXES-FOREIGN WITHHOLDING**

TAXES ON INCOME, WITH RESPECT TO INCOME, OR MEASURED BY INCOME ARE NOT DEDUCTIBLE IN COMPUTING SOUTH CAROLINA NET INCOME. SECTION 12-6-1130(2) CLSC.

#### **FOREIGN SALES CORPORATION (FSC) - RELATED EXPENSE**

DIVIDENDS RECEIVED FROM CORPORATE STOCKS OWNED ARE ALLOCATED NET OF RELATED EXPENSES. SECTION 12-6-2220(2) CLSC. ALSO SEE REGULATION 117.73.

#### **FUEL TAX CREDIT**

SOUTH CAROLINA HAS NO PROVISION TO ALLOW A DEDUCTION FOR A FEDERAL REFUND OF FUEL TAXES. THE CREDIT ALLOWED UNDER IRC SECTION 34 IS A REFUND OF GAS TAX THAT HAS BEEN DEDUCTED AND THE CREDIT AMOUNT MUST BE INCLUDED IN GROSS INCOME FOR FEDERAL AND SOUTH CAROLINA INCOME TAX PURPOSES.

#### **GAIN OR LOSS - INTANGIBLE PROPERTY SALES**

GAINS AND LOSSES FROM SALES OF INTANGIBLE PERSONAL PROPERTY NOT CONNECTED WITH THE TAXPAYER'S BUSINESS, LESS RELATED EXPENSES, ARE ALLOCATED TO THE STATE OF THE CORPORATION'S PRINCIPAL PLACE OF BUSINESS. SECTION 12-6-2220(5) CLSC.

#### **GAIN OR LOSS - REAL PROPERTY SALES**

GAINS AND LOSSES FROM THE SALE OF REAL PROPERTY ARE ALLOCATED TO THE STATE IN WHICH THE PROPERTY IS LOCATED. RECAPTURE OF DEPRECIATION SHALL BE TO THE EXTENT OF THE GAIN. SECTION 12-6-2220(4) CLSC. ALSO, SEE HERCULES, INC. V. SOUTH CAROLINA TAX COMMISSION.

#### **GAIN OR LOSS - TANGIBLE PERSONAL PROPERTY**

SOUTH CAROLINA HAS NO PROVISION FOR THE ALLOCATION OF GAINS OR LOSSES ON THE SALE OF TANGIBLE PERSONAL PROPERTY. SECTION 12-6-2220 CLSC.

#### **INTEREST INCOME**

INTEREST INCOME FROM INTANGIBLE PROPERTY NOT CONNECTED WITH THE BUSINESS OF THE TAXPAYER, LESS ALL RELATED EXPENSES, ARE ALLOCATED TO THE STATE IN WHICH THE PRINCIPAL PLACE OF BUSINESS OF THE TAXPAYER IS LOCATED. SECTION 12-6-2220(1) CLSC.

#### **INVESTMENT INCOME OR LOSS**

INCOME AND LOSSES FROM INVESTMENTS WHICH ARE UNRELATED TO THE BUSINESS ACTIVITY OF THE CORPORATION DOING BUSINESS PARTLY WITHIN AND PARTLY WITHOUT SOUTH CAROLINA, ARE ALLOCATED TO THE STATE IN WHICH THE BUSINESS SITUS OF THE INVESTMENT IS LOCATED. SECTION 12-6-2230 CLSC.

**ITC BASIS REDUCTION**

IF, FOR FEDERAL INCOME TAX PURPOSES, A TAXPAYER CLAIMS A CREDIT FOR WHICH INTERNAL REVENUE CODE SECTION 48(q) OR 49(d) REQUIRES A REDUCTION OF BASIS, THE TAXPAYER MAY REDUCE HIS SOUTH CAROLINA TAXABLE INCOME BY THE AMOUNT OF THE REDUCTION IN BASIS IN THE TAX YEAR IN WHICH THE BASIS IS SO REDUCED FOR FEDERAL INCOME TAX PURPOSES. SECTION 12-6-1130(9) CLSC.

**R & D TAX CREDIT**

SOUTH CAROLINA ALLOWS A DEDUCTION FOR THE FEDERAL RESEARCH AND DEVELOPMENT TAX CREDIT IN THE AMOUNT OF THE REDUCTION OF THE EXPENSE REQUIRED BY INTERNAL REVENUE CODE SECTION 280C. SECTION 12-6-1130(7) CLSC.

**RENTAL INCOME**

RENTS FROM REAL OR TANGIBLE PERSONAL PROPERTY WHICH WAS NOT USED IN OR CONNECTED WITH THE TAXPAYER'S TRADE OR BUSINESS DURING THE INCOME YEAR, LESS ALL RELATED EXPENSES, SHALL BE ALLOCATED TO THE STATE IN WHICH THE PROPERTY WAS LOCATED AT THE TIME THE INCOME WAS DERIVED. SECTION 12-6-2220(3) CLSC.

**RENTAL INCOME - RELATED EXPENSES**

NON-BUSINESS RENTAL INCOME IS ALLOCATED NET OF RELATED EXPENSES. SECTION 12-6-2220(3) CLSC.

**ROYALTY INCOME**

ROYALTIES RECEIVED FROM TANGIBLE PROPERTY, WHERE THE PROPERTY PRODUCING THE INCOME WAS NOT USED IN OR CONNECTED WITH THE TRADE OR BUSINESS OF THE TAXPAYER DURING THE INCOME YEAR, LESS ALL RELATED EXPENSES, ARE ALLOCATED TO THE STATE IN WHICH THE PROPERTY IS LOCATED. ROYALTIES FROM INTANGIBLE PROPERTY ARE NOT ALLOCABLE. SECTION 12-6-2220(3) CLSC.

**ROYALTY INCOME - RELATED EXPENSES**

NON-BUSINESS ROYALTY INCOME IS ALLOCATED NET OF RELATED EXPENSES. SECTION 12-6-2220(3) CLSC.

**SAFE HARBOR LEASE**

SOUTH CAROLINA HAS ADOPTED THE PROVISIONS OF THE INTERNAL REVENUE CODE PERTAINING TO SAFE HARBOR LEASES. SECTION 12-6-580 CLSC. ALSO SEE EASTMAN KODAK, INC. V. SOUTH CAROLINA TAX COMMISSION.

**TAXES - STATE AND LOCAL INCOME**

TAXES ON INCOME, WITH RESPECT TO NET INCOME, OR MEASURED BY NET INCOME ARE NOT DEDUCTIBLE IN COMPUTING SOUTH CAROLINA NET INCOME. SECTION 12-6-1130(2) CLSC.

**TARGETED JOBS CREDIT**

SOUTH CAROLINA ALLOWS A DEDUCTION FOR THE FEDERAL TARGETED JOBS CREDIT IN THE AMOUNT OF THE REDUCTION IN WAGES REQUIRED BY INTERNAL REVENUE CODE SECTION 280C. SECTION 12-6-1130(7) CLSC.



**U S INTEREST**

INTEREST INCOME ON OBLIGATIONS OF THE UNITED STATES IS EXEMPT FROM TAXATION IN SOUTH CAROLINA. SECTION 12-6-1130(2) CLSC.

**TAXES - WINDFALL PROFITS**

TAXES BASED ON, WITH RESPECT TO, OR MEASURED BY INCOME ARE NOT DEDUCTIBLE IN COMPUTING SOUTH CAROLINA NET INCOME. SECTION 12-6-1130(2) CLSC.

**WORTHLESS STOCK / BAD DEBT**

WORTHLESS STOCK OR BAD DEBTS FROM INVESTMENTS UNRELATED TO THE TAXPAYER'S BUSINESS ARE ALLOCABLE TO THE BUSINESS SITUS OF THE INVESTMENT. SECTION 12-6-2230 CLSC.

**LICENSE FEE**

SC LICENSE FEE IS BASED ON CAPITAL STOCK AND PAID-IN SURPLUS. SECTION 12-20-50 CLSC.

SC PROPORTION OF CAPITAL AND PAID-IN SURPLUS IS DETERMINED IN ACCORDANCE WITH THE RATIO PRESCRIBED FOR INCOME TAX PURPOSES IN THE TAXABLE YEAR PRECEDING THE YEAR IN WHICH THE ANNUAL REPORT IS FILED. SECTION 12-20-60 CLSC.

**RATIO - THREE FACTOR**

REMAINING INCOME OF CERTAIN MANUFACTURERS, PROCESSORS, DEALERS, AND OTHERS. NET INCOME OF THE ABOVE CLASSES HAVING BEEN SEPARATELY ALLOCATED, A TAXPAYER WHOSE PRINCIPAL BUSINESS IN THIS STATE IS (A) MANUFACTURING OR ANY FORM OF COLLECTING, BUYING, ASSEMBLING OR PROCESSING GOODS AND MATERIALS WITHIN THIS STATE, OR (B) SELLING DISTRIBUTING OR DEALING IN TANGIBLE PERSONAL PROPERTY WITHIN THIS STATE, SHALL MAKE RETURNS AND PAY ANNUALLY, AN INCOME TAX UPON A PROPORTION OF ITS REMAINING NET INCOME COMPUTED ON THE BASIS OF THE ARITHMETICAL AVERAGE OF THE THREE RATIOS STATED IN SECTIONS 12-7-1150 TO 12-7-1170.

**RATIO - FOUR FACTOR**

SOUTH CAROLINA HAS A FOUR FACTOR APPORTIONMENT RATIO EFFECTIVE JUNE 12, 1995. THIS FACTOR DOUBLE WEIGHTS THE SALES RATIO. THE DOUBLE WEIGHTING OF THE SALES FACTOR FOR 1995 IS DISCUSSED IN SC INFORMATION LETTER #95-17. SECTION 12-6-2250 CLSC.

**PROPERTY RATIO**

(1) THE RATIO OF THE AVERAGE VALUE OF REAL ESTATE AND TANGIBLE PERSONAL PROPERTY, AS DEFINED IN THIS SECTION, USED BY THE TAXPAYER IN THIS STATE DURING THE INCOME YEAR, TO THE AVERAGE VALUE OF THE ENTIRE REAL ESTATE AND TANGIBLE PERSONAL PROPERTY, AS DEFINED IN THIS SECTION, USED BY THE TAXPAYER EVERYWHERE DURING THE INCOME YEAR, WHICH AVERAGE VALUE OF PROPERTY IS DETERMINED BY AVERAGING THE VALUES AT THE BEGINNING AND ENDING OF THE INCOME YEAR AND MUST BE USED UNLESS BY REASON OF MATERIAL CHANGES DURING THE YEAR, THE AVERAGE DOES NOT FAIRLY REPRESENT THE AVERAGE OF THE YEAR, IN WHICH EVENT THE AVERAGE MUST BE DETERMINED UPON A MONTHLY OR A DAILY BASIS. IF THE TAXPAYER DOES NOT TAKE OR KEEP



RECORDS OF PERIODIC INVENTORIES OR IF THE METHOD AND TIME OF THE TAKING THE INVENTORIES DOES NOT ACCURATELY REFLECT THE TRUE AVERAGE INVENTORY, THE COMMISSION SHALL DETERMINE THE AVERAGE INVENTORY FROM INFORMATION AS MAY BE AVAILABLE. INVENTORIES MUST BE VALUED IN ACCORDANCE WITH THE ACCOUNTING PRACTICE OF THE TAXPAYER UNLESS IN THE OPINION OF THE COMMISSION, A DIFFERENT METHOD IS REQUIRED IN ORDER BETTER TO REFLECT THE NET INCOME OF THE TAXPAYER. IN DETERMINING THE VALUE OF PROPERTY, NO DEDUCTION MAY BE MADE FOR ENCUMBRANCES ON THE PROPERTY. FOR PURPOSES OF THIS SECTION, INVENTORIES OF UNMANUFACTURED TOBACCO STORED IN A WAREHOUSE IN SOUTH CAROLINA FOR SUBSEQUENT SHIPMENT TO MANUFACTURER IN ANOTHER STATE, IS NOT CONSIDERED AS PROPERTY USED IN THIS STATE. ANY PROPERTY, THE INCOME FROM WHICH IS ALLOCATED DIRECTLY AND THEREBY EXCLUDED FROM THE NET APPORTIONABLE INCOME, AND ANY PROPERTY NOT HELD OR USED TO PRODUCE INCOME WHICH IS DERIVED FROM SOURCES PARTLY WITHIN AND PARTLY WITHOUT THE STATE, MUST BE EXCLUDED IN THE COMPUTATION OF THE PROPERTY RATIO.

(2) AS USED IN THIS SECTION:

(A) "NET ANNUAL RENTAL RATE" SHALL MEAN THE GROSS ANNUAL RATE PAID BY THE TAXPAYER, LESS THE ANNUAL RENTAL RATE RECEIVED BY THE TAXPAYER FOR ANY SUBRENTALS OF REAL ESTATE;

(B) "PROPERTY" SHALL INCLUDE THE VALUE OF REAL ESTATE AND TANGIBLE PERSONAL PROPERTY RENTED OR LEASED;

(C) "TANGIBLE PERSONAL PROPERTY" SHALL MEAN CORPOREAL PROPERTY, SUCH AS MACHINERY, TOOLS, IMPLEMENTS, EQUIPMENT, GOODS, WARES, AND MERCHANDISE, AND SHALL NOT INCLUDE CASH ON HAND OR IN BANKS, SHARES OF STOCK, BONDS, NOTES, ACCOUNTS RECEIVABLE, CREDITS, SPECIAL PRIVILEGES, FRANCHISE, GOOD WILL, OR EVIDENCE OF DEBT;

(D) "VALUE", IN THE ABSENCE OF SPECIAL CIRCUMSTANCE, IS THE ORIGINAL COST AS SHOWN ON THE BOOKS OF THE TAXPAYER;

(E) "VALUE", AS APPLIED TO PROPERTY OTHER THAN INVENTORIES, SHALL MEAN THE ORIGINAL COST, PLUS ANY ADDITIONS OR IMPROVEMENTS, WITHOUT REGARD TO DEDUCTIONS FOR DEPRECIATION, AMORTIZATION, WRITE-DOWNS OR SIMILAR CHARGES; PROVIDED, THAT SHOULD THE COMMISSION FIND IN THE CASE OF ANY TAXPAYER THIS RESULTS IN THE TAXATION OF INCOME IN ALL THE STATES IN WHICH THE TAXPAYER FILES A RETURN UPON A GREATER AMOUNT THAN ONE HUNDRED PERCENT OF THE INCOME OF THE TAXPAYER, THE COMMISSION MAY, IN ITS DISCRETION, ADJUST THE VALUE OF PROPERTY WITHIN THIS STATE SO AS TO BRING THE PERCENTAGE OF INCOME TAXED TO ONE HUNDRED PERCENT, BUT IN NO CASE SHALL PROPERTY IN THIS STATE BE VALUED AT LESS THAN EIGHTY PERCENT OF THE VALUE AS DEFINED BY THIS SECTION;

(F) "VALUE", AS APPLIED TO REAL ESTATE, RENTED OR LEASED SHALL MEAN THE ANNUAL RENTAL RATE MULTIPLIED BY EIGHT;

(G) "VALUE", AS APPLIED TO TANGIBLE PERSONAL PROPERTY RENTED OR LEASED, SHALL MEAN THE NET ANNUAL RENTAL RATE MULTIPLIED BY EIGHT UNLESS IN ORDER BETTER TO REFLECT VALUE, THE COMMISSION SHALL DIRECT THE USE OF ANOTHER FACTOR IN LIEU OF THE MULTIPLIER, EIGHT. SECTION 12-7-1150 CLSC.

**PAYROLL RATIO**



THE RATIO OF ALL SALARIES, WAGES, COMMISSIONS, AND OTHER PERSONAL SERVICE COMPENSATION PAID OR INCURRED BY THE TAXPAYER IN CONNECTION WITH THE TRADE OR BUSINESS OF THE TAXPAYER IN THIS STATE DURING THE INCOME YEAR TO THE TOTAL SALARIES, WAGES, COMMISSIONS AND OTHER PERSONAL SERVICE COMPENSATION PAID OR INCURRED BY THE TAXPAYER IN CONNECTION WITH THE ENTIRE TRADE OR BUSINESS OF THE TAXPAYER WHEREVER CONDUCTED DURING THE INCOME YEAR, AND FOR THE PURPOSES OF THIS ARTICLE, ALL SUCH COMPENSATION TO EMPLOYEES CHIEFLY WORKING AT, SENT OUT FROM OR CHIEFLY CONNECTED WITH AN OFFICE, AGENCY OR PLACE OF BUSINESS OF THE TAXPAYER IN THIS STATE SHALL BE DEEMED TO BE IN CONNECTION WITH THE TRADE OR BUSINESS OF THE TAXPAYER IN THIS STATE. ALL SUCH COMPENSATION TO GENERAL EXECUTIVE OFFICERS HAVING COMPANY WIDE AUTHORITY SHALL BE EXCLUDED FROM THE NUMERATOR AND THE DENOMINATOR OF THE RATIO, AND ALL SUCH COMPENSATION IN CONNECTION WITH INCOME SEPARATELY ALLOCATED UNDER THE PROVISIONS OF THIS ARTICLE SHALL BE EXCLUDED FROM THE NUMERATOR AND DENOMINATOR OF THE RATIO. SECTION 12-7-1160 CLSC.

#### **SALES RATIO**

THE RATIO OF SALES MADE BY SUCH TAXPAYER DURING THE INCOME YEAR WHICH ARE ATTRIBUTABLE TO THIS STATE TO THE TOTAL SALES MADE BY SUCH TAXPAYER EVERYWHERE DURING THE INCOME YEAR, AND FOR PURPOSES OF THIS ARTICLE, SALES ATTRIBUTABLE TO THIS STATE ARE ALL SALES WHERE THE GOODS, MERCHANDISE, OR PROPERTY IS RECEIVED IN THIS STATE BY A PURCHASER, OTHER THAN THE UNITED STATES GOVERNMENT. IN THE CASE OF DELIVERY OF GOODS BY COMMON CARRIER, OR BY OTHER MEANS OF TRANSPORTATION, INCLUDING TRANSPORTATION BY THE PURCHASER, THE PLACE AT WHICH THE GOODS ARE ULTIMATELY RECEIVED AFTER ALL TRANSPORTATION HAS BEEN COMPLETED IS CONSIDERED AS THE PLACE AT WHICH THE GOODS ARE RECEIVED BY THE PURCHASER. DIRECT DELIVERY INTO THIS STATE BY THE TAXPAYER TO A PERSON OR FIRM DESIGNATED BY A PURCHASER IN THIS STATE.

THE WORD "SALES" AS USED IN THE ARTICLE INCLUDES RENTALS OF TANGIBLE PERSONAL PROPERTY, THE RENTALS FROM WHICH ARE NOT SEPARATELY ALLOCATED UNDER THIS ARTICLE. THE RENTALS ARE ATTRIBUTED TO THIS STATE IF THE PROPERTY IS LOCATED IN THIS STATE. SALES OF INTANGIBLE PERSONAL PROPERTY ARE ATTRIBUTABLE TO THIS STATE IF THE ENTIRE INCOME PRODUCING ACTIVITY IS WITHIN THIS STATE, OR BASED ON COSTS OF PERFORMANCE, THE GREATER PROPORTION OF WHICH IS PERFORMED WITHIN THIS STATE. SECTION 12-7-1170 CLSC.

#### **GROSS RECEIPTS RATIO**

IF THE PRINCIPAL PROFITS OR INCOME OF A TAXPAYER, OTHER THAN THOSE DESCRIBED IN FORMER 1962 CODE, SECTION 256 OR SECTION 12-19-100, ARE DERIVED FROM SOURCES OTHER THAN MANUFACTURING, PRODUCING, COLLECTING, BUYING, ASSEMBLING, PROCESSING OR SELLING, DISTRIBUTING OR DEALING IN TANGIBLE PERSONAL PROPERTY SUCH TAXPAYER SHALL MAKE RETURNS AND PAY ANNUALLY AN INCOME TAX UPON A PROPORTION OF ITS REMAINING NET INCOME COMPUTED ON THE BASIS OF THE RATIO OF GROSS RECEIPTS FROM WITHIN THIS STATE DURING THE INCOME YEAR TO THE TOTAL GROSS RECEIPTS OF SUCH YEAR WITHIN AND WITHOUT THE STATE. SECTION 12-7-1190 CLSC.



**RATIO - MODIFIED THREE FACTOR (DOUBLE WEIGHTED SALES)**

A TAXPAYER WHOSE PRINCIPAL BUSINESS IN THIS STATE IS (A) MANUFACTURING OR ANY FORM OF COLLECTING, BUYING, ASSEMBLYING, OR PROCESSING GOODS AND MATERIALS WITHIN THIS STATE, OR (B) SELLING, DISTRIBUTING, OR DEALING IN TANGIBLE PERSONAL PROPERTY WITHIN THIS STATE, SHALL MAKE RETURNS AND PAY ANNUALLY AN INCOME TAX WHICH INCLUDES ITS INCOME APPORTIONED TO THIS STATE. ITS INCOME APPORTIONED TO THIS STATE IS DETERMINED BY MULTIPLYING THE NET INCOME REMAINING AFTER ALLOCATION UNDER SECTIONS 12-6-2220 AND 12-6-2230 BY A FRACTION, THE NUMERATOR OF WHICH IS THE PROPERTY RATIO, PLUS THE PAYROLL RATIO, PLUS TWICE THE SALES RATIO, AND THE DENOMINATOR OF WHICH IS FOUR. HOWEVER, WHERE THE SALES RATIO DOES NOT EXIST, THE DENOMINATOR OF THE FRACTION IS THE NUMBER OF EXISTING RATIOS, AND WHERE THE SALES RATIO EXISTS BUT THE PAYROLL RATIO OR THE PROPERTY RATIO DOES NOT EXIST, THE DENOMINATOR OF THE FRACTION IS THE NUMBER OF EXISTING RATIOS PLUS ONE. THE PROPERTY, PAYROLL, AND SALES RATIOS MUST BE DETERMINED IN ACCORDANCE WITH SECTIONS 12-6-2260, 12-6-2270, AND 12-6-2280, RESPECTIVELY. SECTION 12-6-2250 CLSC.

**PROPERTY FACTOR**

(A) THE PROPERTY FACTOR IS A FRACTION IN WHICH THE NUMERATOR IS THE AVERAGE VALUE OF THE TAXPAYER'S REAL AND TANGIBLE PERSONAL PROPERTY OWNED OR RENTED AND USED IN THIS STATE DURING THE TAXABLE YEAR AND THE DENOMINATOR IS THE AVERAGE VALUE OF ALL OF THE TAXPAYER'S REAL AND TANGIBLE PERSONAL PROPERTY OWNED OR RENTED AND USED DURING THE TAXABLE YEAR. THE PROPERTY FACTOR DOES NOT INCLUDE PROPERTY WHICH PRODUCES INCOME THAT IS ALLOCATED RATHER THEN APPORTIONED.

(B) AS USED IN THIS SECTION, TANGIBLE PERSONAL PROPERTY MEANS CORPOREAL PROPERTY SUCH AS MACHINERY, TOOLS, IMPLEMENTS, EQUIPMENT, GOODS, WARES, AND MERCHANDISE, BUT DOES NOT INCLUDE CASH, SHARES OF STOCK, BONDS, NOTES, ACCOUNTS RECEIVABLES, CREDITS, SPECIAL PRIVILEGES, FRANCHISES, GOODWILL, OR EVIDENCES OF DEBT.

(C) THE AVERAGE VALUE OF PROPERTY IS DETERMINED BY AVERAGING THE VALUES AT THE BEGINNING AND END OF THE TAXABLE YEAR. IF THIS AVERAGE DOES NOT FAIRLY REPRESENT THE YEARLY AVERAGE BECAUSE OF MATERIAL CHANGES DURING THE YEAR, THE AVERAGE MUST BE DETERMINED ON A MONTHLY OR DAILY BASIS.

(D) FOR PURPOSES OF THIS SECTION, VALUE OF PROPERTY IS DETERMINED AS FOLLOWS:

(1) INVENTORY IS VALUED USING THE TAXPAYER'S BOOK ACCOUNTING PRACTICES UNLESS IN THE DEPARTMENT'S OPINION A DIFFERENT METHOD MORE ACCURATELY REFLECTS NET INCOME. IF THE TAXPAYER DOES NOT TAKE OR KEEP RECORDS OF PERIODIC INVENTORIES OR IF THE METHOD AND TIME OF TAKING THE INVENTORIES DOES NOT ACCURATELY REFLECT THE TRUE AVERAGE INVENTORY, THE DEPARTMENT MAY DETERMINE THE AVERAGE INVENTORY FROM INFORMATION AVAILABLE.

(2) FOR PROPERTY OWNED OTHER THAN INVENTORY, VALUE IS THE ORIGINAL COST PLUS ANY ADDITIONS OR IMPROVEMENTS WITHOUT REGARD TO DEDUCTIONS FOR DEPRECIATION, AMORTIZATION, WRITE-DOWNS, OR SIMILAR CHARGES. IF THIS METHOD OF VALUATION RESULTS IN THE TAXATION OF MORE THAN ONE HUNDRED PERCENT OF THE INCOME OF THE TAXPAYER IN ALL THE



STATES IN WHICH THE TAXPAYER FILES A RETURN, THE DEPARTMENT MAY IN ITS DISCRETION ADJUST THE VALUE OF PROPERTY WITHIN THIS STATE TO BRING THE PERCENTAGE TO ONE HUNDRED PERCENT, BUT IN NO CASE CAN THE PROPERTY IN THIS STATE BE VALUED AT LESS THAN EIGHTY PERCENT OF THE VALUE AS DEFINED IN THIS SUBSECTION.

(3) FOR RENTED AND LEASED REAL AND PERSONAL PROPERTY, VALUE IS THE NET ANNUAL RENTAL RATE MULTIPLIED BY EIGHT. FOR RENTED OR LEASED PERSONAL PROPERTY THE DEPARTMENT MAY REQUIRE A FACTOR OTHER THAN A MULTIPLIER OF EIGHT TO BE USED IF IT BETTER REFLECTS THE VALUE. NET ANNUAL RENTAL RATE MEANS THE GROSS ANNUAL RATE PAID BY THE TAXPAYER, LESS THE GROSS ANNUAL RENTAL RATE RECEIVED BY THE TAXPAYER FOR ANY SUBRENTALS OF REAL ESTATE.

(4) IN DETERMINING THE VALUE OF PROPERTY, NO DEDUCTION MAY BE MADE FOR ENCUMBRANCES ON THE PROPERTY.

(5) INVENTORIES OF UNMANUFACTURED TOBACCO STORED IN A WAREHOUSE IN THIS STATE FOR SUBSEQUENT SHIPMENT TO A MANUFACTURER IN ANOTHER STATE, ARE NOT CONSIDERED PROPERTY USED IN THIS STATE.  
SECTION 12-6-2260 CLSC.

#### **PAYROLL FACTOR**

(A) THE PAYROLL FACTOR IS A FRACTION IN WHICH THE NUMERATOR IS THE TOTAL AMOUNT PAID BY THE TAXPAYER FOR COMPENSATION IN THIS STATE DURING THE TAXABLE YEAR AND THE DENOMINATOR IS THE TOTAL COMPENSATION PAID EVERYWHERE DURING THE TAXABLE YEAR.

(B) COMPENSATION INCLUDES SALARIES, WAGES, COMMISSIONS, AND OTHER PERSONAL SERVICE COMPENSATION PAID OR INCURRED IN CONNECTION WITH THE TAXPAYER'S TRADE OR BUSINESS. FOR PURPOSES OF THIS ARTICLE, ALL COMPENSATION PAID TO EMPLOYEES CHIEFLY WORKING AT, SENT OUT FROM, OR CHIEFLY CONNECTED WITH AN OFFICE, AGENCY, OR PLACE OF BUSINESS OF THE TAXPAYER IN THIS STATE IS DEEMED TO BE IN CONNECTION WITH THE TRADE OR BUSINESS OF THE TAXPAYER IN THIS STATE.

(C) COMPENSATION PAID TO GENERAL EXECUTIVE OFFICERS HAVING COMPANY-WIDE AUTHORITY IS EXCLUDED FROM THE PAYROLL FACTOR.

(D) ALL COMPENSATION IN CONNECTION WITH INCOME SEPARATELY ALLOCATED IS EXCLUDED FROM THE PAYROLL FACTOR.  
SECTION 12-6-2270 CLSC.

#### **SALES FACTOR**

(A) THE SALES FACTOR IS A FRACTION IN WHICH THE NUMERATOR IS THE TOTAL SALES OF THE TAXPAYER IN THIS STATE DURING THE TAXABLE YEAR AND THE DENOMINATOR IS THE TOTAL SALES OF THE TAXPAYER EVERYWHERE DURING THE TAXABLE YEAR.

(B) THE TERM "SALES IN THIS STATE" INCLUDES SALES OF GOODS, MERCHANDISE, OR PROPERTY RECEIVED BY A PURCHASER IN THIS STATE OTHER THAN THE UNITED STATES GOVERNMENT. THE PLACE WHERE GOODS ARE RECEIVED BY THE PURCHASER AFTER ALL TRANSPORTATION IS COMPLETED IS CONSIDERED AS THE PLACE AT WHICH THE GOODS ARE RECEIVED BY THE PURCHASER. DIRECT DELIVERY INTO THIS STATE BY THE TAXPAYER TO A PERSON DESIGNATED BY A PURCHASER CONSTITUTES DELIVERY TO THE PURCHASER IN THIS STATE.

(C) THE WORD "SALES" INCLUDES, BUT IS NOT LIMITED TO:

(1) RENTALS FROM TANGIBLE PERSONAL PROPERTY LOCATED IN THIS STATE WHICH ARE NOT SEPARATELY ALLOCATED; AND



(2) SALES OF INTANGIBLE PERSONAL PROPERTY AND RECEIPTS FROM SERVICES IF THE ENTIRE INCOME-PRODUCING ACTIVITY IS WITHIN THIS STATE. IF THE INCOME-PRODUCING ACTIVITY IS PERFORMED PARTLY WITHIN AND PARTLY WITHOUT THIS STATE, SALES ARE ATTRIBUTABLE TO THIS STATE TO THE EXTENT THE INCOME-PRODUCING ACTIVITY IS PERFORMED WITH THIS STATE.  
SECTION 12-6-2280 CLSC.

#### **GROSS RECEIPTS RATIO**

IF THE PRINCIPAL PROFITS OR INCOME OF A TAXPAYER ARE DERIVED FROM SOURCES OTHER THAN THOSE DESCRIBED IN SECTION 12-6-2250 OR SECTION 12-6-2310, THE TAXPAYER SHALL APPORTION ITS REMAINING NET INCOME USING A FRACTION IN WHICH THE NUMERATOR IS GROSS RECEIPTS FROM WITHIN THIS STATE DURING THE TAXABLE YEAR AND THE DENOMINATOR IS TOTAL GROSS RECEIPTS FROM EVERYWHERE DURING THE TAXABLE YEAR.  
SECTION 12-6-2290 CLSC.

#### **SECTION 936**

SC HAS NOT ADOPTED SECTIONS 861 THROUGH 908, 912, AND 931 THROUGH 989 RELATING TO THE TAXATION OF FOREIGN INCOME. SECTION 12-6-50(11) CLSC. THE EXCLUSIONS PERMITTED BY INTERNAL REVENUE CODE SECTIONS 912 (EXEMPTIONS FOR CERTAIN ALLOWANCES FOR CITIZENS OR RESIDENTS OF THE UNITED STATES LIVING ABROAD) AND 931 THROUGH 936 (INCOME FROM POSSESSIONS OF THE UNITED STATES) ARE NOT PERMITTED. SECTION 12-6-1120(5) CLSC.

#### **SECTION 482**

SOUTH CAROLINA HAS ADOPTED THE PROVISIONS OF INTERNAL REVENUE CODE SECTION 482 REGARDING THE ALLOCATION OF INCOME AND EXPENSES.  
SECTION 12-6-580. ALSO SEE SECTION 12-6-50 FOR IRC SECTIONS NOT ADOPTED.

#### **SECTION 12-6-2320**

ALLOCATION AND APPORTIONMENT OF TAXPAYER'S INCOME WHEN PROVISIONS UNFAIRLY REPRESENT TAXPAYER'S BUSINESS ACTIVITY.....

- (A) IF THE ALLOCATION AND APPORTIONMENT PROVISIONS OF THIS CHAPTER DO NOT FAIRLY REPRESENT THE EXTENT OF THE TAXPAYER'S BUSINESS ACTIVITY IN THIS STATE,.....THE DEPARTMENT MAY REQUIRE, IN RESPECT TO ALL OR ANY PART OF THE TAXPAYER'S BUSINESS ACTIVITY.....
- (2) THE EXCLUSION OF ONE OR MORE OF THE FACTORS;
- (3) THE INCLUSION OF ONE OR MORE ADDITIONAL FACTORS WHICH WILL FAIRLY REPRESENT THE TAXPAYER'S BUSINESS ACTIVITY IN THE STATE.
- (4) THE EMPLOYMENT OF ANY OTHER METHOD TO EFFECTUATE AN EQUITABLE ALLOCATION AND APPORTIONMENT OF THE TAXPAYER'S INCOME.

#### **CONSOLIDATED RETURNS**

CORPORATIONS MAY ELECT TO FILE CONSOLIDATED (COMBINED) ON TIMELY FILED RETURNS, IF THE OWNERSHIP REQUIREMENTS ARE MET.  
SECTION 12-6-5020 CLSC.

#### **ELECTION TO FILE CONSOLIDATED RETURN**

THE ELECTION TO FILE A CONSOLIDATED RETURN OR SEPARATE RETURNS MUST BE MADE ON AN ORIGINAL AND TIMELY RETURN AND MAY NOT BE CHANGED AFTER THE RETURN IS FILED. SECTION 12-6-5020 (G) CLSC.

**SOUTH CAROLINA'S RIGHT TO SEE THE CONSOLIDATED FEDERAL RETURN AS FILED.**

SECTION 12-54-110 SUMMONS

SECTION 12-54-220 FURNISHING TAX RETURNS

SECTION 12-54-225 OTHER STATES NOTIFIED

SECTION 12-6-2320 (A)(3)(4)

SECTION 12-6-5520 NOTIFICATION (FAILURE TO FILE)

SECTION 12-6-5540 COPIES OF RETURNS ....TO PROVIDE COPIES OF RETURNS FILED  
WITH THE IRS AND VERIFY INFORMATION CONTAINED ON THE  
RETURNS.

**TAX CREDIT - SC NEW JOBS CREDIT**

SOUTH CAROLINA ALLOWS A TAX CREDIT FOR CORPORATIONS CREATING NEW  
FULL TIME JOBS IN THIS STATE. SECTION 12-6-3360 CLSC.

**TAX CREDIT - SC HEADQUARTER'S CREDIT**

SOUTH CAROLINA ALLOWS A TAX CREDIT FOR CORPORATIONS ESTABLISHING A  
CORPORATE HEADQUARTERS IN THIS STATE OR EXPANDING OR ADDING TO AN  
EXISTING CORPORATE HEADQUARTERS IN THIS STATE. SECTION 12-6-3410 CLSC.

**TAX CREDIT - SC INFRASTRUCTURE CREDIT**

SOUTH CAROLINA ALLOWS A TAX CREDIT FOR CORPORATIONS BUILDING OR  
IMPROVING INFRASTRUCTURE PROJECTS. SECTION 12-6-3420 CLSC.

**TAX CREDIT - SC CHILD CARE PROGRAM**

SOUTH CAROLINA ALLOWS A TAX CREDIT FOR TAXPAYERS ESTABLISHING A CHILD  
CARE PROGRAM FOR HIS EMPLOYEES. SECTION 12-6-3440 CLSC.

**TAX CREDIT - ENERGY CONSERVATION**

SOUTH CAROLINA ALLOWS A TAX CREDIT FOR SPECIFIED ENERGY  
CONSERVATION AND RENEWABLE ENERGY PRODUCTION MEASURES.  
SECTION 12-6-3340 CLSC.

**TAX CREDIT-PALMETTO SEED**

SOUTH CAROLINA ALLOWS A TAX CREDIT DETERMINED IN ACCORDANCE WITH  
SECTION 12-6-3430 CLSC.

**TAX CREDIT - TERMINATED EMPLOYEES FED.MILITARY INSTALLATIONS**

SOUTH CAROLINA ALLOWS A CREDIT FOR HIRING EMPLOYEES TERMINATED FROM  
FEDERAL MILITARY INSTALLATIONS AS SPECIFIED IN SECTION 12-6-3450 CLSC.

**TAX CREDIT-MINORITY CONTRACT FIRMS**

SOUTH CAROLINA ALLOWS A CREDIT FOR SUBCONTRACTS WITH MINORITY FIRMS  
AS DEFINED IN SECTION 11-35-5010. SECTION 12-6-3350 CLSC.

**TAX CREDIT - WATER IMPOUNDMENTS**

SOUTH CAROLINA ALLOWS A CREDIT FOR EXPENDITURES SPECIFIED WATER  
IMPOUNDMENTS AND WATER CONTROL STRUCTURES. SECTION 12-6-3370 CLSC.

**TAX CREDIT - RECYCLING FACILITY**

SOUTH CAROLINA ALLOWS A CREDIT FOR INVESTMENTS IN RECYCLING PROPERTY



AS SPECIFIED IN SECTION 12-6-3460 CLSC.

**TAX CREDIT - EMPLOYER OF AFDC RECIPIENTS**

SOUTH CAROLINA ALLOWS A TAX CREDIT FOR WAGES PAID TO EMPLOYEES WHO HAD BEEN RECEIVING AFDC PAYMENTS. SECTION 12-6-3470 CLSC.

**TAX CREDITS - HOW TO APPLY**

SOUTH CAROLINA TAX CREDITS MAY BE USED BY ALL MEMBERS OF A CONTROLLED GROUP. THEY MAY ALSO BE APPLIED AGAINST LICENSE FEES. SEE SECTION 12-6-3480 FOR DETAILS REGARDING THESE APPLICATIONS.

**TAX CREDITS - SC INVESTMENT TAX CREDITS**

SOUTH CAROLINA ALLOWS INVESTMENT TAX CREDITS IN SPECIFIED COUNTIES AND FOR SPECIFIED TYPE INVESTMENT IN ASSETS PER SECTION 12-14-60 CLSC.

**TAX CREDITS - INFRASTRUCTURE CREDIT FOR LICENSE**

A COMPANY SUBJECT TO LICENSE TAX UNDER SECTION 12-20-100 MAY APPLY FOR A TAX CREDIT AGAINST ITS LIABILITY FOR AMOUNTS PAID IN CASH FOR INFRASTRUCTURE PROJECTS. SEE SECTION 12-6-3490 CLSC.

RELATED EXPENSES AS USED IN SECTION 12-7-1120 SHALL MEAN ANY COSTS INCURRED DIRECTLY OR INDIRECTLY IN CONNECTION WITH OTHER INVESTMENTS, INCLUDING SUBSIDIARIES, FOR THE PRODUCTION OF INCOME OR FUTURE INCOME, WHICH IS OR WILL BE SPECIFICALLY AND DIRECTLY ALLOCATED UNDER THIS SECTION OR COSTS INCURRED IN THE AQUISITION, SALE OR EXCHANGE OF REAL, TANGIBLE OR INTANGIBLE PROPERTY, SHALL BE ALLOCATED IN ACCORDANCE WITH THE SC CODE OF LAWS. SEE SC REVENUE DECISION ID-309, SC REGULATION 117-73, AND AVCO CORPORATION Vs. SOUTH CAROLINA DEPARTMENT OF REVENUE.

NOTE: IN LIEU OF ACTUAL RELATED EXPENSES, THE "DC" FORMULA IS BEING USED TO COMPUTE RELATED EXPENSES.

**SOUTH CAROLINA DEPARTMENT OF REVENUE**

**TAXPAYER:** Tractor Supply Comp **SCHEDULE:**  
**FILE # :** 20459918-5 **AUDITOR:** king  
**PERIOD:** 12/31/08 - 12/31/10 **DATE:** 0

**PERIOD ENDED:**

HAVE AMENDED FEDERAL RETURNS BEEN FILED?

HAVE SC AMENDED RETURNS BEEN FILED?

WHAT IS THE TAXPAYER'S STATUS WITH THE INTERNAL REVENUE SERVICE?

WHAT LOCATIONS DOES THE TAXPAYER HAVE IN SOUTH CAROLINA?

WHAT COMPANIES DOES THE TAXPAYER OWN?

WHO OWNS THIS TAXPAYER?

WERE ANY QUESTIONNAIRES GIVEN TO THE TAXPAYER?

WAS A WAIVER GIVEN TO THE TAXPAYER?

DOES THE TAXPAYER HAVE ANY ROYALTY EXPENSES?

WERE ANNUAL REPORT AND 10K REQUESTED?

**SOUTH CAROLINA DEPARTMENT OF REVENUE  
DISPUTED ISSUE - CASE DEVELOPMENT**

**TAXPAYER:** Tractor Supply Comp  
**FILE # :** 20459918-5      **AUDITOR:** king  
**PERIOD:** 12/31/08 - 12/31/10      **DATE:** 0

**ISSUE:**

**FACTS:**

**LAW:**

**CONCLUSION:**

**Tractor Supply Company**

Tractor Supply Company (FEIN: [REDACTED]) is the parent of the combined affiliated group. The parent contains the majority of the group's distribution centers as well as retail locations. Additionally, the store support center activity is included in this entity.

**Tractor Supply Company of Michigan, LLC**

Tractor Supply Company of Michigan, LLC (FEIN: [REDACTED]) is a subsidiary of our combined affiliated group which is 100% owned by the parent. This affiliate houses all retail locations in Michigan. Additionally, the company leases its employees from the parent company and is charged a service fee at a markup.

**Tractor Supply Co of Texas, LP**

Tractor Supply Co of Texas, LP (FEIN: [REDACTED]) is a subsidiary of our combined affiliated group which is 1% owned by the parent and 99% owned by Tractor Supply Company of Michigan, LLC. This affiliate contains all Texas retail stores, one Texas distribution center, and two Texas mixing centers. Additionally, the group's inventory procurement function is included in this entity. The procurement team is physically located in the store support center facility.

**TSC Purchasing, LLC**

TSC Purchasing, LLC is a single member LLC disregarded for federal tax purposes. This entity's activity is included on the parent, and its primary purpose is to purchase non-inventory merchandise, such as computers and fixtures, for the stores.

**TSC Franklin DC, LLC**

TSC Franklin DC, LLC is a single member LLC disregarded for federal tax purposes. This entity's activity is included on the parent and its primary purpose is to hold a bond relating to a payment in lieu of taxes agreement on our Franklin distribution center.

**TSC SSC Bond, LLC**

TSC SSC Bond, LLC is a single member LLC disregarded for federal tax purposes. This entity's activity is included on the parent and its primary purpose is to hold a bond relating to a payment in lieu of taxes agreement on our store support center.

**Del's Farm Supply, LLC**

Del's Farm Supply, LLC is a single member LLC disregarded for federal tax purposes. Tractor Supply Company acquired this entity's retail stores which were located in Washington, Hawaii, and Canada. Tractor Supply Company subsequently added Del's stores in Oregon and Idaho, and closed the store in Canada. Over time, these stores are being converted to Tractor Supply Company stores.

**Petsense, LLC**

Petsense, LLC is a single member LLC disregarded for federal tax purposes. This entity contains approximately 130 retail stores located primarily in the southern part of the US and has nexus in LA. Petsense, LLC was acquired by Tractor Supply Company in Q4 of 2016.

**Tractor Supply Company of Utah, LLC**

Tractor Supply Company of Utah, LLC is a single member LLC disregarded for federal tax purposes. This entity holds all of the retail stores in Utah.

**Tractor Supply GC Trust**

Tractor Supply GC Trust is a Maryland gift card trust which holds all of our gift card activity.

## **RESPONDENT'S EXHIBITS 29 AND 30**

**Files are included on Thumb Drive**

29 - 2014-2016 Administrative Service Charge

30 - TSC Average Store Profit by State