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SC Court of Appeals

THE STATE OF SOUTH CAROLINA
In The Court of Appeals

APPEAL FROM THE ADMINISTRATIVE LAW COURT

Ralph King Anderson, III, Chief Administrative Law Judge

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

Tractor Supply Company, Appellant,

v.

South Carolina Department of Revenue, Respondent.

**RECORD ON APPEAL**
**VOLUME XI**

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SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# SCDOR Calculation of Combined Unitary Income

Tractor Supply Company v. South Carolina Department of Revenue

19-ALJ-17-0416-CC

# Step 1 - Line 30 Federal Consolidated Return (FTI)

1350

Issued: 08/16/18

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
Corporate Working Paper

AS-27
(Rev. 07/28/17)
6432

## Corporate Adjustments Summary for 2016

| | Reported | Audited |
|---|---|---|
| 1. Federal Taxable Income | $138,467,788 | $575,066,936 |
| 2. Net Adjustment | $35,154,984 | $35,154,984 |
| 3. Total Net Income as Reconciled | $173,622,772 | $610,221,920 |
| 4. Total South Carolina Net Income | $5,008,670 | $14,471,413 |
| 5. South Carolina Net Operating Loss Carryover | $0 | $0 |
| 6. South Carolina Net Income Subject to Tax | $5,008,670 | $14,471,413 |
| 7. Corporation Tax Due | $250,434 | $723,571 |
| 8. Less Tax Deferred on Income From Foreign Trade Receipts | $0 | $0 |
| 9. Balance | $250,434 | $723,571 |
| 10a. Credit Carryover | $0 | $0 |
| 10b. Non-refundable Credits | $22,646 | $22,646 |
| 11. Balance of Tax | $227,788 | $700,925 |
| 12a. Interest on DISC-deffered Tax Liability | $0 | $0 |
| 12b. Interest on Foreign Trade Deferred Tax Liability | $0 | $0 |
| Total Deferred Liability | $0 | $0 |
| 13. Total Tax and/or Interest | $227,788 | $700,925 |
| 14. Refundable Credits: | | |
| a. Tax Withheld | $0 | $0 |
| e. Ammonia Additive | $0 | $0 |
| f. Milk Credit | $0 | $0 |
| 15. Total Payments and Refundable Credits | $0 | $0 |
| Tax Previously Paid by Related Combined Entities | | $0 |
| Balance | $227,788 | $700,925 |

Explanation of Income Tax Liability Adjustments

Audit adjustments completed per SC Code Section 12-6 2320(A). Please see Explanation of Assessments letter for details.

Page 2
SCDOR_001232

Form **1120** Department of the Treasury Internal Revenue Service

**U.S. Corporation Income Tax Return**

For calendar year 2016 or tax year beginning 12/27/2015, ending 12/31/2016

▶ Information about Form 1120 and its separate instructions is at www.irs.gov/form1120.

OMB No. 1545-0123 **2016**

A Check if: 1a Consolidated return (attach Form 851) [X] b Life/nonlife consolidated return 2 Personal holding co. (attach Sch. PH) 3 Personal service corp. (see instructions) 4 Schedule M-3 attached [X]

TYPE OR PRINT — Name: Tractor Supply Company & Subs; Number, street, and room or suite no.: 5401 Virginia Way; City or town, state, or province, country, and ZIP or foreign postal code: Brentwood, TN 37027

B Employer identification number: 13-3139732
C Date incorporated: 12/02/1982
D Total assets (see instructions): $ 2,682,098,506.

E Check if: (1) Initial return (2) Final return (3) Name change (4) Address change

| | | | |
|---|---|---|---|
| 1a | Gross receipts or sales | 1a 7,123,502,916. | |
| b | Returns and allowances | 1b 343,923,743. | |
| c | Balance. Subtract line 1b from line 1a | 1c | 6,779,579,173. |
| 2 | Cost of goods sold (attach Form 1125-A) | 2 | 4,450,793,397. |
| 3 | Gross profit. Subtract line 2 from line 1c | 3 | 2,328,785,776. |
| 4 | Dividends (Schedule C, line 19) | 4 | 70,755. |
| 5 | Interest — See Statement 3 | 5 | 46,965. |
| 6 | Gross rents | 6 | 225,677. |
| 7 | Gross royalties | 7 | |
| 8 | Capital gain net income (attach Schedule D (Form 1120)) | 8 | |
| 9 | Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) | 9 | -2,108,776. |
| 10 | Other income (see instructions - attach statement) — See Statement 3 | 10 | 6,471,832. |
| 11 | Total income. Add lines 3 through 10 | 11 | 2,333,492,229. |
| 12 | Compensation of officers (see instructions - attach Form 1125-E) | 12 | 9,011,944. |
| 13 | Salaries and wages (less employment credits) | 13 | 627,278,268. |
| 14 | Repairs and maintenance | 14 | 103,488,152. |
| 15 | Bad debts | 15 | 212,859. |
| 16 | Rents | 16 | 285,430,747. |
| 17 | Taxes and licenses — See Statement 5 | 17 | 133,720,264. |
| 18 | Interest | 18 | 4,412,251. |
| 19 | Charitable contributions — See Statement 7 | 19 | 1,987,880. |
| 20 | Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) | 20 | 171,978,650. |
| 21 | Depletion | 21 | |
| 22 | Advertising | 22 | 90,459,017. |
| 23 | Pension, profit-sharing, etc., plans | 23 | 6,531,818. |
| 24 | Employee benefit programs | 24 | 55,392,295. |
| 25 | Domestic production activities deduction (attach Form 8903) | 25 | |
| 26 | Other deductions (attach statement) — See Statement 8 | 26 | 268,471,619. |
| 27 | Total deductions. Add lines 12 through 26 | 27 | 1,758,375,764. |
| 28 | Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11 | 28 | 575,116,465. |
| 29a | Net operating loss deduction (see instructions) | 29a | |
| b | Special deductions (Schedule C, line 20) | 29b 49,529. | |
| c | Add lines 29a and 29b | 29c | 49,529. |
| 30 | Taxable income. Subtract line 29c from line 28. See instructions | 30 | 575,066,936. |
| 31 | Total tax (Schedule J, Part I, line 11) | 31 | 197,700,731. |
| 32 | Total payments and refundable credits (Schedule J, Part II, line 21) | 32 | 216,724,707. |
| 33 | Estimated tax penalty. See instructions. Check if Form 2220 is attached [X] | 33 | |
| 34 | Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed | 34 | |
| 35 | Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid | 35 | 19,023,976. |
| 36 | Enter amount from line 35 you want: Credited to 2017 estimated tax ▶ 19,023,976. Refunded ▶ | 36 | |

Sign Here — Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer: Blake Snider — Date: 09/07/2017 — Title: V.P. - Tax

May the IRS discuss this return with the preparer shown below? See instructions. Yes [ ] No [X]

Paid Preparer Use Only — Print/Type preparer's name | Preparer's signature | Date | Check if self-employed | PTIN | Firm's name ▶ | Firm's EIN ▶ | Firm's address ▶ | Phone no.

For Paperwork Reduction Act Notice, see separate instructions. Form **1120** (2016)

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TSC_00001908

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

Source: Joint Exhibit 13 at SCDOR_001232
Joint Exhibit 8 at TSC_00001908

# Step 2 – Combined Unitary Income

Tractor Supply Company & Subs 13-3139732

**Consolidated Schedules**
**1120 Page 1**

| | | Combined | Tractor Supply Elim | Adjustments | Tractor Supply Company & Subs |
|---|---|---|---|---|---|
| 1a | Gross receipts or sales | 11,202,289,074. | -4,078,786,158. | | 7,123,502,916. |
| 1b | Returns and allowances | 343,923,743. | | | 343,923,743. |
| 1c | Balance | 10,858,365,331. | -4,078,786,158. | | 6,779,579,173. |
| 2 | Cost of goods sold | 8,526,598,008. | -4,075,804,611. | | 4,450,793,397. |
| 3 | Gross profit | 2,331,767,323. | -2,981,547. | | 2,328,785,776. |
| 4 | Dividends | 70,755. | | | 70,755. |
| 5 | Interest | 46,965. | | | 46,965. |
| 6 | Gross rents | 410,692. | -185,015. | | 225,677. |
| 7 | Gross royalties | | | | |
| 8 | Capital gain net income | | | | |
| 9 | Net gain or (loss) from Form 4797 | -2,108,776. | | | -2,108,776. |
| 10 | Other income | 33,246,848. | -26,775,016. | | 6,471,832. |
| 11 | Total income | 2,363,433,807. | -29,941,578. | | 2,333,492,229. |
| 12 | Compensation of officers | 9,011,944. | | | 9,011,944. |
| 13 | Salaries and wages | 627,278,268. | | | 627,278,268. |
| 14 | Repairs and maintenance | 103,488,152. | | | 103,488,152. |
| 15 | Bad debts | 212,859. | | | 212,859. |
| 16 | Rents | 285,615,762. | -185,015. | | 285,430,747. |
| 17 | Taxes and licenses | 133,720,264. | | | 133,720,264. |
| 18 | Interest | 4,412,251. | | | 4,412,251. |
| 19 | Charitable contributions | 1,987,880. | | | 1,987,880. |
| 20 | Depreciation | 171,978,650. | | | 171,978,650. |
| 21 | Depletion | | | | |
| 22 | Advertising | 90,459,017. | | | 90,459,017. |
| 23 | Pension, profit-sharing etc., plans | 6,531,818. | | | 6,531,818. |
| 24 | Employee benefit programs | 55,392,295. | | | 55,392,295. |
| 25 | Domestic production activities deduction | | | | |
| 26 | Other deductions | 295,246,635. | -26,775,016. | | 268,471,619. |
| 27 | Total deductions | 1,785,335,795. | -26,960,031. | | 1,758,375,764. |
| 28 | Taxable income before NOL & Spec. Deductions | 578,098,012. | -2,981,547. | | 575,116,465. |
| 29 | NOL, Spec. deductions | 49,529. | | | 49,529. |
| 30 | Taxable income | 578,048,483. | -2,981,547. | | 575,066,936. |

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TSC 00001977

Source: Joint Exhibit 8 at TSC_00001977

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Step 3 – Elimination of Intercompany Transactions

Tractor Supply Company & Subs 13-3139732

**Consolidated Schedules**
**1120 Page 1**

| | | Combined | Tractor Supply Elim | Adjustments | Tractor Supply Company & Subs |
|---|---|---|---|---|---|
| 1a | Gross receipts or sales | 11,202,289,074. | -4,078,786,158. | | 7,123,502,916. |
| 1b | Returns and allowances | 343,923,743. | | | 343,923,743. |
| 1c | Balance | 10,858,365,331. | -4,078,786,158. | | 6,779,579,173. |
| 2 | Cost of goods sold | 8,526,598,008. | -4,075,804,611. | | 4,450,793,397. |
| 3 | Gross profit | 2,331,767,323. | -2,981,547. | | 2,328,785,776. |
| 4 | Dividends | 70,755. | | | 70,755. |
| 5 | Interest | 46,965. | | | 46,965. |
| 6 | Gross rents | 410,692. | -165,015. | | 225,677. |
| 7 | Gross royalties | | | | |
| 8 | Capital gain net income | | | | |
| 9 | Net gain or (loss) from Form 4797 | -2,108,776. | | | -2,108,776. |
| 10 | Other income | 33,246,848. | -26,775,016. | | 6,471,832. |
| 11 | Total income | 2,363,433,807. | -29,941,578. | | 2,333,492,229. |
| 12 | Compensation of officers | 9,011,944. | | | 9,011,944. |
| 13 | Salaries and wages | 627,278,268. | | | 627,278,268. |
| 14 | Repairs and maintenance | 103,488,152. | | | 103,488,152. |
| 15 | Bad debts | 212,859. | | | 212,859. |
| 16 | Rents | 285,615,762. | -185,015. | | 285,430,747. |
| 17 | Taxes and licenses | 133,720,264. | | | 133,720,264. |
| 18 | Interest | 4,412,251. | | | 4,412,251. |
| 19 | Charitable contributions | 1,987,880. | | | 1,987,880. |
| 20 | Depreciation | 171,978,650. | | | 171,978,650. |
| 21 | Depletion | | | | |
| 22 | Advertising | 90,459,017. | | | 90,459,017. |
| 23 | Pension, profit-sharing etc., plans | 6,531,818. | | | 6,531,818. |
| 24 | Employee benefit programs | 55,392,295. | | | 55,392,295. |
| 25 | Domestic production activities deduction | | | | |
| 26 | Other deductions | 295,246,635. | -26,775,016. | | 268,471,619. |
| 27 | Total deductions | 1,785,335,795. | -26,960,031. | | 1,758,375,764. |
| 28 | Taxable income before NOL & Spec. Deductions | 578,098,012. | -2,981,547. | | 575,116,465. |
| 29 | NOL,Spec. deductions | 49,529. | | | 49,529. |
| 30 | Taxable income | 578,048,483. | -2,981,547. | | 575,066,936. |

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TSC 00001977

Source: Joint Exhibit 8 at TSC_00001977



SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Step 4 - South Carolina Modifications (additions and subtractions)

1350

Issued: 08/16/18

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
Corporate Working Paper

AS-27 (Rev. 07/28/17) 6432

## Corporate Adjustments Summary for 2016

| | Reported | Audited |
|---|---|---|
| 1. Federal Taxable Income | $138,467,788 | $575,066,936 |
| 2. Net Adjustment | $35,154,984 | $35,154,984 |
| 3. Total Net Income as Reconciled | $173,622,772 | $610,221,920 |
| 4. Total South Carolina Net Income | $5,008,670 | $14,471,413 |
| 5. South Carolina Net Operating Loss Carryover | $0 | $0 |
| 6. South Carolina Net Income Subject to Tax | $5,008,670 | $14,471,413 |
| 7. Corporation Tax Due | $250,434 | $723,571 |
| 8. Less Tax Deferred on Income From Foreign Trade Receipts | $0 | $0 |
| 9. Balance | $250,434 | $723,571 |
| 10a. Credit Carryover | $0 | $0 |
| 10b. Non-refundable Credits | $22,646 | $22,646 |
| 11. Balance of Tax | $227,788 | $700,925 |
| 12a. Interest on DISC-deffered Tax Liability | $0 | $0 |
| 12b. Interest on Foreign Trade Deferred Tax Liability | $0 | $0 |
| Total Deferred Liability | $0 | $0 |
| 13. Total Tax and/or Interest | $227,788 | $700,925 |
| 14. Refundable Credits: | | |
| a. Tax Withheld | $0 | $0 |
| e. Ammonia Additive | $0 | $0 |
| f. Milk Credit | $0 | $0 |
| 15. Total Payments and Refundable Credits | $0 | $0 |
| Tax Previously Paid by Related Combined Entities | | $0 |
| Balance | $227,788 | $700,925 |

Explanation of Income Tax Liability Adjustments

Audit adjustments completed per SC Code Section 12-6 2320(A). Please see Explanation of Assessments letter for details.

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Issued: 08/16/18

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
Corporate Working Paper

AS-27 (Rev. 07/28/17) 6432

## Combined Recomputation of Net Income Tax for 2016

| FEIN | Federal Taxable Income | Other Additions | Other Deductions | Total Adjustments | Net Income as Reconciled | Amounts Directly Allocated | Apportionable Income |
|---|---|---|---|---|---|---|---|
| [redacted] | $138,467,788 | $38,719,156 | $3,564,172 | $35,154,984 | $173,622,772 | $0 | $173,622,772 |
| [redacted] | $419,939,799 | $0 | $0 | $0 | $419,939,799 | $0 | $419,939,799 |
| [redacted] | $19,640,896 | $0 | $0 | $0 | $19,640,896 | $0 | $19,640,896 |
| [redacted] | -$2,981,547 | $0 | $0 | $0 | -$2,981,547 | $0 | -$2,981,547 |
| | $575,066,936 | $38,719,156 | $3,564,172 | $35,154,984 | $610,221,920 | $0 | $610,221,920 |

| | |
|---|---|
| SC Apportionment Ratio | 2.37% |
| SC Proportion | $14,471,413 |
| Total Amount Allocated to SC | $0 |
| SC Net Income | $14,471,413 |
| SC NOL | $0 |
| Taxable Income | $14,471,413 |

Explanation of Combined Tax Schedule

Updated apportionment ratio applied to included group affiliates.



Source: Joint Exhibit 13 at SCDOR_001232, 1234

SOUTH CAROLINA DEPARTMENT OF REVENUE

# Step 5 - Single Sales Factor (numerator)

**SCHEDULE G — COMPUTATION OF TAXABLE INCOME OF MULTI-STATE CORPORATIONS**

| | | |
|---|---|---|
| 1. Total net income as reconciled. Enter amount from line 3, Page 1 | 1. | 173,622,772 |
| 2. Less: Income subject to direct allocation to SC and other states from Schedule F, line 7 | 2. | |
| 3. Total net income subject to apportionment (line 1 less line 2) | 3. | 173,622,772 |
| 4. Multiply amount on line 3 by appropriate ratio from Schedule H-1, H-2, or H-3 and enter result here | 4. | 5,008,670 |
| 5. Add: Income subject to direct allocation to SC from Schedule F, line 8 | 5. | |
| 6. Total SC Net Income (sum of lines 4 and 5 above) also enter on line 4, Part 1 of Page 1 | 6. | 5,008,670 |

**SCHEDULE H-1 — COMPUTATION OF SALES RATIO**

| | Amount | Ratio |
|---|---|---|
| 1. Total Sales Within South Carolina (see instructions) | 160,942,647 | |
| 2. Total Sales Everywhere (see instructions) | 5,578,955,151 | |
| 3. Sales Ratio (line 1 ÷ line 2) | | 2.8848 % |

**Note:** If there are no sales anywhere: Enter 100% on Line 3, if South Carolina is the principal place of business OR Enter 0% on Line 3, if principal place of business is outside South Carolina.

**SCHEDULE H-2 — COMPUTATION OF GROSS RECEIPTS RATIO**

| | Amount | Ratio |
|---|---|---|
| 1. South Carolina Gross Receipts | | |
| 2. Amounts Allocated to South Carolina on Schedule F | < > | |
| 3. South Carolina Adjusted Gross Receipts (line 1 – line 2) | | |
| 4. Total Gross Receipts | | |
| 5. Total Amounts Allocated on Schedule F | < > | |
| 6. Total Adjusted Gross Receipts (line 4 – line 5) | | |
| 7. Gross Receipts Ratio (line 3 ÷ line 6) | | % |

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DEPARTMENT OF REVENUE
Corporate Working Paper

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**Combined Recomputation of Sales Ratio for 2016**

| FEIN | SC Sales Per Return | Adjustments | SC Sales Adjusted | Everywhere Sales Adjusted | Adjustments | SC Sales Ratio |
|---|---|---|---|---|---|---|
| [redacted] | $160,942,647 | $0 | $160,942,647 | $5,578,675,641 | $0 | 2.88% |
| | $0 | $0 | $0 | $857,643,402 | -$4,105,746,189 | 0% |
| | $0 | $0 | $0 | $350,075,359 | -$9,829,064 | 0% |
| | **$160,942,647** | **$0** | **$160,942,647** | **$6,786,394,402** | **-$4,115,575,25** | **2.88%** |

| | |
|---|---|
| Total SC Sales | $160,942,647 |
| Total Everywhere Sales | $6,786,394,402 |
| Combined Sales Ratio | 2.37% |

Explanation of Schedule Combined Recomputation of Sales Ratio Adjustments

Everywhere sales and adjustments include Gross Receipts, Dividends, Interest, Rents, Royalties and Other Income from the Federal Consolidated return. This includes the eliminations amounts as well.

Source: Joint Exhibit 11 at TSC_00000093
Joint Exhibit 13 at SCDOR_00001234

ROA_004517

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Step 5 - Single Sales Factor (denominator)

Tractor Supply Company & Subs 13-3139732

**Consolidated Schedules**
**1120 Page 1**

| | | Combined | Tractor Supply Elim | Adjustments | Tractor Supply Company & Subs |
|---|---|---|---|---|---|
| 1a | Gross receipts or sales | 11,202,289,074. | -4,078,786,158. | | 7,123,502,916. |
| 1b | Returns and allowances | 343,923,743. | | | 343,923,743. |
| 1c | Balance | 10,858,365,331. | -4,078,786,158. | | 6,779,579,173. |
| 2 | Cost of goods sold | 8,526,598,008. | -4,075,804,611. | | 4,450,793,397. |
| 3 | Gross profit | 2,331,767,323. | -2,981,547. | | 2,328,785,776. |
| 4 | Dividends | 70,755. | | | 70,755. |
| 5 | Interest | 46,965. | | | 46,965. |
| 6 | Gross rents | 410,692. | -185,015. | | 225,677. |
| 7 | Gross royalties | | | | |
| 8 | Capital gain net income | | | | |
| 9 | Net gain or (loss) from Form 4797 | -2,108,776. | | | -2,108,776. |
| 10 | Other income | 33,246,848. | -26,775,016. | | 6,471,832. |
| 11 | Total income | 2,363,433,807. | -29,941,578. | | 2,333,492,229. |
| 12 | Compensation of officers | 9,011,944. | | | 9,011,944. |
| 13 | Salaries and wages | 627,278,268. | | | 627,278,268. |
| 14 | Repairs and maintenance | 103,488,152. | | | 103,488,152. |
| 15 | Bad debts | 212,859. | | | 212,859. |
| 16 | Rents | 285,615,762. | -185,015. | | 285,430,747. |
| 17 | Taxes and licenses | 133,720,264. | | | 133,720,264. |
| 18 | Interest | 4,412,251. | | | 4,412,251. |
| 19 | Charitable contributions | 1,987,880. | | | 1,987,880. |
| 20 | Depreciation | 171,978,650. | | | 171,978,650. |
| 21 | Depletion | | | | |
| 22 | Advertising | 90,459,017. | | | 90,459,017. |
| 23 | Pension, profit-sharing etc., plans | 6,531,818. | | | 6,531,818. |
| 24 | Employee benefit programs | 55,392,295. | | | 55,392,295. |
| 25 | Domestic production activities deduction | | | | |
| 26 | Other deductions | 295,246,635. | -26,775,016. | | 268,471,619. |
| 27 | Total deductions | 1,785,335,795. | -26,960,031. | | 1,758,375,764. |
| 28 | Taxable income before NOL & Spec. Deductions | 578,098,012. | -2,981,547. | | 575,116,465. |
| 29 | NOL, Spec. deductions | 49,529. | | | 49,529. |
| 30 | Taxable income | 578,048,483. | -2,981,547. | | 575,066,936. |

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TSC 00001977

1350 Issued: 08/16/18

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
Corporate Working Paper

AS-27
(Rev. 07/28/17)
6432

## Combined Recomputation of Sales Ratio for 2016

| FEIN | SC Sales Per Return | Adjustments | SC Sales Adjusted | Everywhere Sales Adjusted | Adjustments | SC Sales Ratio |
|---|---|---|---|---|---|---|
| [redacted] | $160,942,647 | $0 | $160,942,647 | $5,578,675,641 | $0 | 2.88% |
| | $0 | $0 | $0 | $857,643,402 | -$4,105,746,18 9 | 0% |
| | $0 | $0 | $0 | $350,075,359 | -$9,829,064 | 0% |
| | $160,942,647 | $0 | $160,942,647 | $6,786,394,402 | -$4,115,575,25 | 2.88% |

| | |
|---|---|
| Total SC Sales | $160,942,647 |
| Total Everywhere Sales | $6,786,394,402 |
| Combined Sales Ratio | 2.37% |

Explanation of Schedule Combined Recomputation of Sales Ratio Adjustments

Everywhere sales and adjustments include Gross Receipts, Dividends, Interest, Rents, Royalties and Other Income from the Federal Consolidated return. This includes the eliminations amounts as well.

Source: Joint Exhibit 8 at TSC_00001977
Joint Exhibit 13 at SCDOR_00001234

ROA_004518

# Step 6 - Non Apportionable Income Allocated to SC

| | Gross Amounts 1 | Less: Related Expenses 2 | Allocated Directly to SC and Other States 3 | Allocated Directly to SC 4 |
|---|---|---|---|---|
| 1. Interest not connected with business | | | | |
| 2. Dividends received | | | | |
| 3. Rents | | | | |
| 4. Gains/losses on real property | | | | |
| 5. Gains/losses on intangible pers. prop. | | | | |
| 6. Investment income directly allocated | | | | |
| 7. TOTAL INCOME DIRECTLY ALLOCATED | | | | |
| 8. INCOME DIRECTLY ALLOCATED TO SC | | | | |

**SCHEDULE G — COMPUTATION OF TAXABLE INCOME OF MULTI-STATE CORPORATIONS**

| | | |
|---|---|---|
| 1. Total net income as reconciled. Enter amount from line 3, Page 1 | 1. | 173,622,772 |
| 2. Less: Income subject to direct allocation to SC and other states from Schedule F, line 7 | 2. | |
| 3. Total net income subject to apportionment (line 1 less line 2) | 3. | 173,622,772 |
| 4. Multiply amount on line 3 by appropriate ratio from Schedule H-1, H-2, or H-3 and enter result here | 4. | 5,008,670 |
| 5. Add: Income subject to direct allocation to SC from Schedule F, line 8 | 5. | |
| 6. Total SC Net Income (sum of lines 4 and 5 above) also enter on line 4, Part 1 of Page 1 | 6. | 5,008,670 |

**SCHEDULE H-1 — COMPUTATION OF SALES RATIO**

| | Amount | Ratio |
|---|---|---|
| 1. Total Sales Within South Carolina (see instructions) | 160,942,647 | |
| 2. Total Sales Everywhere (see instructions) | 5,578,955,151 | |
| 3. Sales Ratio (line 1 ÷ line 2) | | 2.8848% |

**Note:** If there are no sales anywhere: Enter 100% on Line 3, if South Carolina is the principal place of business OR

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## Combined Recomputation of Net Income Tax for 2016

| FEIN | Federal Taxable Income | Other Additions | Other Deductions | Total Adjustments | Net Income as Reconciled | Amounts Directly Allocated | Apportionable Income |
|---|---|---|---|---|---|---|---|
| [redacted] | $138,467,788 | $38,719,156 | $3,564,172 | $35,154,984 | $173,622,772 | $0 | $173,622,772 |
| [redacted] | $419,939,799 | $0 | $0 | $0 | $419,939,799 | $0 | $419,939,799 |
| [redacted] | $19,640,896 | $0 | $0 | $0 | $19,640,896 | $0 | $19,640,896 |
| [redacted] | -$2,981,547 | $0 | $0 | $0 | -$2,981,547 | $0 | -$2,981,547 |
| | $575,066,936 | $38,719,156 | $3,564,172 | $35,154,984 | $610,221,920 | $0 | $610,221,920 |

| | |
|---|---|
| SC Apportionment Ratio | 2.37% |
| SC Proportion | $14,471,413 |
| Total Amount Allocated to SC | $0 |
| SC Net Income | $14,471,413 |
| SC NOL | $0 |
| Taxable Income | $14,471,413 |

Explanation of Combined Tax Schedule

Updated apportionment ratio applied to included group affiliates.

Source: Joint Exhibit 11 at TSC_00000093
Joint Exhibit 13 at SCDOR_00001235

SOUTH CAROLINA DEPARTMENT OF REVENUE

# Step 7 - Net Operating Losses Allocated to Members of the Group

THO | STATE OF SOUTH CAROLINA
**'C' CORPORATION INCOME TAX RETURN** | **SC 1120** (Rev. 9/2/16) 3091

Return is due on or before the 15th day of the 4th month following the close of the taxable year.

SC FILE # 20459918-5

INCOME TAX PERIOD ENDING 12/31/2016
LICENSE FEE PERIOD ENDING 12/31/2017
FEIN 13-3139732

NAME TRACTOR SUPPLY COMPANY
MAILING ADDRESS 5401 Virginia Way
CITY Brentwood STATE TN ZIP CODE 37027
Change of ▶ ☐ Address ☐ Accounting Period
☐ Officers

Attach complete copy of Federal Return
☒ Check here if you filed a federal or state extension

Check if ▶ ☐ Initial Return ▶ ☐ Consolidated Return (Complete Schedule M)
▶ ☐ Amended Return ☒ Includes Disregarded LLC(s) (Complete Schedule L)

If Filing a Final Return, see General Instructions, page 6. You MUST close your account with the SECRETARY OF STATE and complete I-349.

▶ ☐ Merged ▶ ☐ Reorganized ▶ ☐ Final

County or Counties in SC Where Property is Located: SEE LIST ATTACHED

| City | Audit Location | State |
|---|---|---|
| Brentwood | | TN |

| Total Gross Receipts | Total cost of depreciable personal property in SC | Audit Contact | Telephone Number |
|---|---|---|---|
| ▶ 5515609574 | ▶ 20645713 | Marjie Rockwell | 6154404227 |

PART I COMPUTATION OF INCOME TAX LIABILITY

| | | | | |
|---|---|---|---|---|
| 1. | Federal Taxable Income per federal tax return | ▶ 1. | 138,467,788 | 00 |
| 2. | Net Adjustment from line 12, Schedule A and B | 2. | 35,154,984 | 00 |
| 3. | Total Net Income as Reconciled (line 1 plus or minus line 2) | ▶ 3. | 173,622,772 | 00 |
| 4. | ~~If Multi-state Corporation, enter amount from line 6, Schedule G, otherwise, enter amount from line 3~~ | ▶ 4. | 5,008,670 | 00 |
| 5. | LESS: South Carolina net operating loss carryover, if applicable | 5. | | 00 |
| 6. | South Carolina Net Income subject to tax (line 4 less line 5) | ▶ 6. | 5,008,670 | 00 |
| 7. | TAX: Multiply amount on line 6 by 5% (.05) | 7. | 250,434 | 00 |
| 8. | Less tax deferred on income from foreign trade receipts (see instructions) | ▶ 8. | | 00 |
| 9. | Balance (line 7 less line 8) | 9. | 250,434 | 00 |
| 10. | Credit Carryover (line 7, Schedule C) ▶ [ 00 ] Nonrefundable credits (line 5, Schedule C) | ▶ 10. | 22,646 | 00 |
| 11. | Balance of tax (line 9 less line 10). Enter the difference but not less than zero | 11. | 227,788 | 00 |
| 12. | Interest on DISC-deferred tax liability [ 00 ] ; or Foreign Trade Deferred Tax Liability [ 00 ] | 12. | | 00 |
| 13. | Total tax and/or interest (add lines 11 and 12) | 13. | 227,788 | 00 |

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## Corporate Adjustments Summary for 2016

| | Reported | Audited |
|---|---|---|
| 1. Federal Taxable Income | $138,467,788 | $575,066,936 |
| 2. Net Adjustment | $35,154,984 | $35,154,984 |
| 3. Total Net Income as Reconciled | $173,622,772 | $610,221,920 |
| 4. Total South Carolina Net Income | $5,008,670 | $14,471,413 |
| 5. South Carolina Net Operating Loss Carryover | $0 | $0 |
| 6. South Carolina Net Income Subject to Tax | $5,008,670 | $14,471,413 |
| 7. Corporation Tax Due | $250,434 | $723,571 |
| 8. Less Tax Deferred on Income From Foreign Trade Receipts | $0 | $0 |
| 9. Balance | $250,434 | $723,571 |
| 10a. Credit Carryover | $0 | $0 |
| 10b. Non-refundable Credits | $22,646 | $22,646 |
| 11. Balance of Tax | $227,788 | $700,925 |
| 12a. Interest on DISC-deffered Tax Liability | $0 | $0 |
| 12b. Interest on Foreign Trade Deferred Tax Liability | $0 | $0 |
| Total Deferred Liability | $0 | $0 |
| 13. Total Tax and/or Interest | $227,788 | $700,925 |
| 14. Refundable Credits: | | |
| a. Tax Withheld | $0 | $0 |
| e. Ammonia Additive | $0 | $0 |
| f. Milk Credit | $0 | $0 |
| 15. Total Payments and Refundable Credits | $0 | $0 |
| Tax Previously Paid by Related Combined Entities | | $0 |
| Balance | $227,788 | $700,925 |

Explanation of Income Tax Liability Adjustments

Audit adjustments completed per SC Code Section 12-6 2320(A). Please see Explanation of Assessments letter for details.

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Source: Joint Exhibit 11 at TSC_00000090
Joint Exhibit 13 at SCDOR_00001232

# Step 8 - Eligibility and Calculation of a tax credit

**THO** STATE OF SOUTH CAROLINA
**'C' CORPORATION INCOME TAX RETURN**
**SC 1120** (Rev. 9/2/16) 3091

Return is due on or before the 15th day of the 4th month following the close of the taxable year.

SC FILE # 20459918-5

INCOME TAX PERIOD ENDING 12/31/2016
LICENSE FEE PERIOD ENDING 12/31/2017
FEIN 13-3139732

NAME TRACTOR SUPPLY COMPANY
MAILING ADDRESS 5401 Virginia Way
CITY Brentwood STATE TN ZIP CODE 37027
Change of ▶ Address / Officers / Accounting Period

Attach complete copy of Federal Return
[X] Check here if you filed a federal or state extension

Check if ▶ Initial Return ▶ Consolidated Return (Complete Schedule M)
▶ Amended Return [X] Includes Disregarded LLC(s) (Complete Schedule L)

County or Counties in SC Where Property is Located: SEE LIST ATTACHED

If Filing a Final Return, see General Instructions, page 6. You MUST close your account with the SECRETARY OF STATE and complete I-349.

▶ Merged ▶ Reorganized ▶ Final

City: Brentwood | Audit Location | State: TN

Total Gross Receipts ▶ 5515609574 | Total cost of depreciable personal property in SC ▶ 20645713 | Audit Contact: Marjie Rockwell | Telephone Number: 6154404227

PART I COMPUTATION OF INCOME TAX LIABILITY

| | | | |
|---|---|---|---|
| 1. | Federal Taxable Income per federal tax return | ▶ 1. | 138,467,788 00 |
| 2. | Net Adjustment from line 12, Schedule A and B | 2. | 35,154,984 00 |
| 3. | Total Net Income as Reconciled (line 1 plus or minus line 2) | ▶ 3. | 173,622,772 00 |
| 4. | If Multi-state Corporation, enter amount from line 6, Schedule G, otherwise, enter amount from line 3 | ▶ 4. | 5,008,670 00 |
| 5. | LESS: South Carolina net operating loss carryover, if applicable | 5. | 00 |
| 6. | South Carolina Net Income subject to tax (line 4 less line 5) | ▶ 6. | 5,008,670 00 |
| 7. | TAX: Multiply amount on line 6 by 5% (.05) | 7. | 250,434 00 |
| 8. | Less tax deferred on income from foreign trade receipts (see instructions) | ▶ 8. | 00 |
| 9. | Balance (line 7 less line 8) | 9. | 250,434 00 |
| 10. | Credit Carryover (line 7, Schedule C) ▶ 00 Nonrefundable credits (line 5, Schedule C) | ▶ 10. | 22,646 00 |
| 11. | Balance of tax (line 9 less line 10). Enter the difference but not less than zero | 11. | 227,788 00 |
| 12. | Interest on DISC-deferred tax liability 00 ; or Foreign Trade Deferred Tax Liability 00 | 12. | 00 |
| 13. | Total tax and/or interest (add lines 11 and 12) | 13. | 227,788 00 |

1350 Issued: 08/16/18

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
Corporate Working Paper

AS-27 (Rev. 07/28/17) 6432

## Corporate Adjustments Summary for 2016

| | Reported | Audited |
|---|---|---|
| 1. Federal Taxable Income | $138,467,788 | $575,066,936 |
| 2. Net Adjustment | $35,154,984 | $35,154,984 |
| 3. Total Net Income as Reconciled | $173,622,772 | $610,221,920 |
| 4. Total South Carolina Net Income | $5,008,670 | $14,471,413 |
| 5. South Carolina Net Operating Loss Carryover | $0 | $0 |
| 6. South Carolina Net Income Subject to Tax | $5,008,670 | $14,471,413 |
| 7. Corporation Tax Due | $250,434 | $723,571 |
| 8. Less Tax Deferred on Income From Foreign Trade Receipts | $0 | $0 |
| 9. Balance | $250,434 | $723,571 |
| 10a. Credit Carryover | $0 | $0 |
| 10b. Non-refundable Credits | $22,646 | $22,646 |
| 11. Balance of Tax | $227,788 | $700,925 |
| 12a. Interest on DISC-deffered Tax Liability | $0 | $0 |
| 12b. Interest on Foreign Trade Deferred Tax Liability | $0 | $0 |
| Total Deferred Liability | $0 | $0 |
| 13. Total Tax and/or Interest | $227,788 | $700,925 |
| 14. Refundable Credits: | | |
| a. Tax Withheld | $0 | $0 |
| e. Ammonia Additive | $0 | $0 |
| f. Milk Credit | $0 | $0 |
| 15. Total Payments and Refundable Credits | $0 | $0 |
| Tax Previously Paid by Related Combined Entities | | $0 |
| Balance | $227,788 | $700,925 |

Explanation of Income Tax Liability Adjustments

Audit adjustments completed per SC Code Section 12-6 2320(A). Please see Explanation of Assessments letter for details.

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SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

Source: Joint Exhibit 11 at TSC_00000090
Joint Exhibit 13 at SCDOR_00001232

ROA_004521

# Tax Due Under Combined Unitary Income Calculation

| | Tax Reported (As Filed) | Tax Determined on Audit | Balance |
|---|---|---|---|
| FY2014 | $184,220 | $626,840 | $442,620 |
| FY2015 | $195,189 | $662,496 | $467,307 |
| FY2016 | $227,788 | $700,925 | $473,137 |
| TOTAL | | | $1,383,064.00 |

**DEPARTMENT DETERMINATION**

**Taxpayer:**

Tractor Supply Company
5401 Virginia Way
Brentwood, TN 37027-7536

**Periods at Issue:**

Corporate Income Tax and License Fee for the Periods January 1, 2014 through December 31, 2016

**Matters in Dispute:**

1. Does Tractor Supply Company's ("Tractor Supply") use of separate entity reporting in the standard apportionment formula fairly represent the extent of Tractor Supply's business activity in South Carolina?

2. Is the South Carolina Department of Revenue's ("Department") application of combined unitary reporting a reasonable alternative apportionment method pursuant to S.C. Code Ann. § 12-6-2320(A)(4) (2014)?

**Amount at Issue:**

| | |
|---|---|
| **Tax** | $1,383,064.00 |
| **Penalty** | $0.00 |
| **Interest*** | $221,938.45 |
| **TOTAL** | **$1,605,002.45** |

*The interest amount has been updated from the Proposed Assessment and is computed through December 12, 2019, and will continue to accrue until this matter is resolved.

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

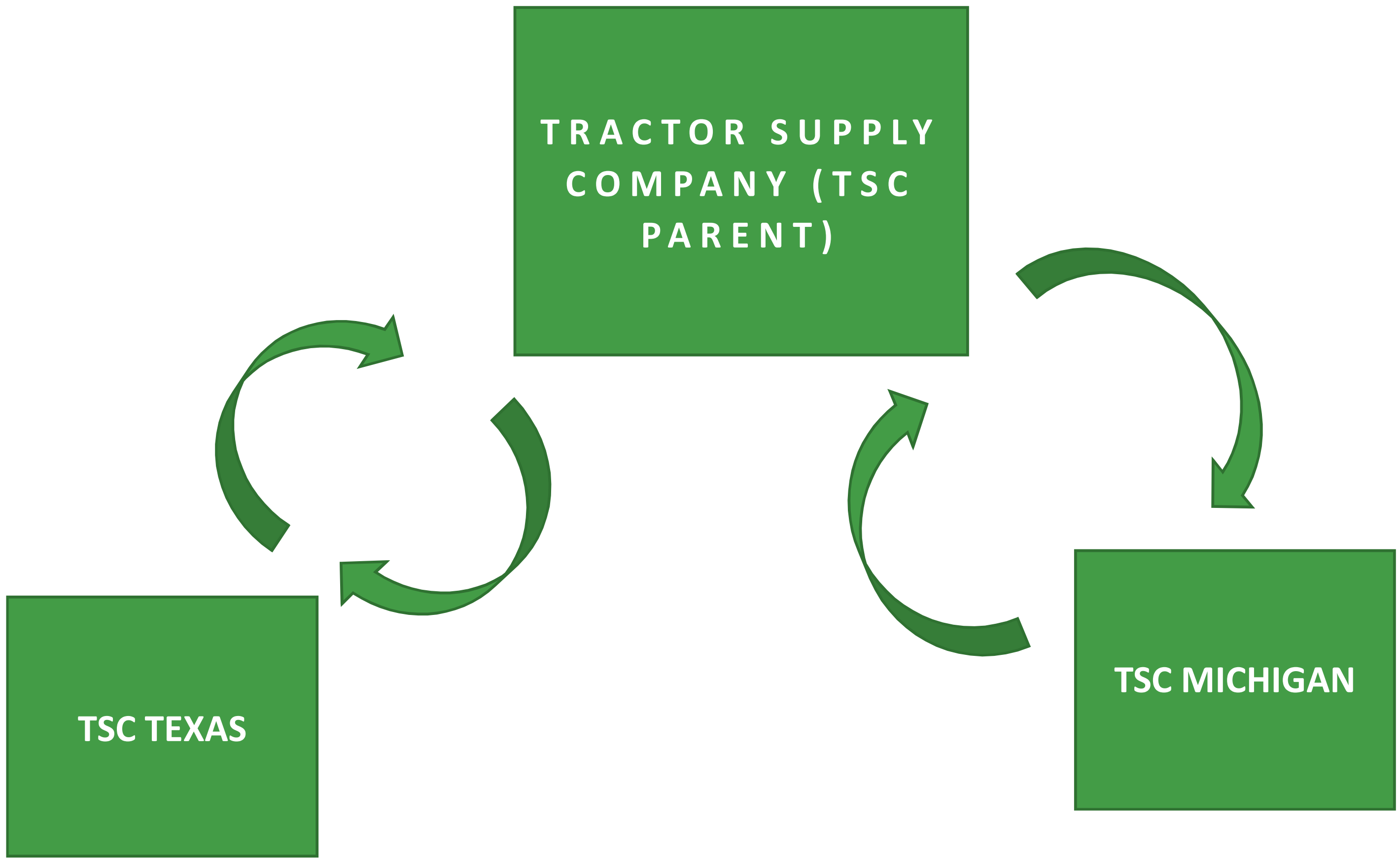
Source: Joint Exhibit 13 at SCDOR_001222, 1227, 1232
Joint Exhibit 19 at TSC_0000016

SOUTH CAROLINA
DOR
DEPARTMENT OF REVENUE

# Akash Sehgal

Tractor Supply Company v. South Carolina Department of Revenue

DOCKET NO. 19-ALC-17-0416-CC




Source: Joint Exhibit 4, TSC_00004553-00004557 (TSC Organizational Structure)

**TRACTOR SUPPLY COMPANY (TSC PARENT)**

a. Retail Store Operations
b. Pays 9.7% markup to TSC Texas on Inventory Purchases
c. Receives Management Fees from TSC Michigan and TSC Texas
d. Leases employees to TSC Michigan Retail Stores
e. Officers of TSC Parent were functioning as officers of TSC Michigan and TSC Texas

**TSC TEXAS**

a. Operates Retail Stores in Texas
b. Procurement Company for TSC Retail Stores
c. Receives 9.7% mark up on inventory costs generated through procurement function
d. 82% of revenue generated from intercompany transactions

**TSC MICHIGAN**

a. Michigan Retail Store Operations
b. Leases Michigan Retail Employees from TSC Parent
c. Pays Management Fees to TSC Parent

Sources: Joint Exhibit 4, TSC_00004553-00004557 (Organizational Structure)
Joint Exhibit 19, TSC_00004466-00004468 (7/11/2014 PwC Transfer Pricing Planning – TSC Texas Inventory Markup Analysis)
Joint Exhibit 20, TSC_00004466-00004468 (TSC Memos re: § 482 Study for 2014-2016)
Joint Exhibit 30, TSC_00004558-00004560 (2014-2016 Trial Balances)

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Intercompany Transaction 1: Employee Leasing

## FY 2014 Trial Balance

| GL Account | Account Description | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|---|
| 60340 | InterCo Payroll Expense | 22,808,758.00 | 0.00 | -22,808,758.00 | 0.00 | 0.00 |
| 96942 | Shared Services Income | -25,089,633.80 | 0.00 | 0.00 | 25,089,633.80 | 0.00 |
| 96943 | Shared Services Expense | 0.00 | 0.00 | 25,089,633.80 | -25,089,633.80 | 0.00 |

Source: Joint Exhibit 30, TSC_00004558

SOUTH CAROLINA DEPARTMENT OF REVENUE

# Intercompany Transaction 1: Employee Leasing

## FY 2015 Trial Balance

| GL Account | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|
| 60340 InterCo Payroll Expense | 23,371,047.00 | 0.00 | -23,371,047.00 | 0.00 | 0.00 |
| 96942 Shared Services Income | -25,708,151.70 | 0.00 | 0.00 | 25,708,151.70 | 0.00 |
| 96943 Shared Services Expense | 0.00 | 0.00 | 25,708,151.70 | -25,708,151.70 | 0.00 |

Source: Exhibit 30, TSC_00004559

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Intercompany Transaction 1: Employee Leasing

## FY 2016 Trial Balance

| Account | GL Account | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|---|
| 60340 | 60340 InterCo Payroll Expense | 24,340,924.00 | 0.00 | -24,340,924.00 | 0.00 | 0.00 |
| 96942 | 96942 Shared Services Income | -26,775,016.40 | 0.00 | 0.00 | 26,775,016.40 | 0.00 |
| 96943 | 96943 Shared Services Expense | 0.00 | 0.00 | 26,775,016.40 | -26,775,016.40 | 0.00 |

Source: Exhibit 30, TSC_00004560

SOUTH CAROLINA DEPARTMENT OF REVENUE

# Intercompany Transaction 2: Management/Administrative

## FY 2014 Trial Balance

| GL Account | Account Description | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|---|
| 96940 | InterCo Admin Expense | 0.00 | 18,418,917.60 | 9,012,131.88 | -27,431,049.48 | 0.00 |
| 96941 | Administrative Fee Income | -27,431,049.48 | 0.00 | 0.00 | 27,431,049.48 | 0.00 |

Source: Exhibit 30, TSC_00004558

# Intercompany Transaction 2: Management/Administrative

## FY 2015 Trial Balance

| GL Account | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|
| 96940 InterCo Admin Expense | 0.00 | 19,389,418.68 | 9,534,575.28 | -28,923,993.96 | 0.00 |
| 96941 Administrative Fee Income | -28,923,993.96 | 0.00 | 0.00 | 28,923,993.96 | 0.00 |

Source: Exhibit 30, TSC_00004559

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Intercompany Transaction 2: Management/Administrative

## FY 2016 Trial Balance

| Account | GL Account | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|---|
| 96940 | 96940 InterCo Admin Expense | 0.00 | 19,683,847.92 | 9,886,674.48 | -29,570,522.40 | 0.00 |
| 96941 | 96941 Administrative Fee Income | -29,570,522.40 | 0.00 | 0.00 | 29,570,522.40 | 0.00 |

Source: Exhibit 30, TSC_00004560

SOUTH CAROLINA DEPARTMENT OF REVENUE

# Intercompany Transaction 3: Procurement

| GL Account | Account Description | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|---|
| 50100 | Gross Sales | -4,859,309,625.64 | -792,497,660.89 | -356,350,842.89 | 0.00 | -6,008,158,129.42 |
| 50102 | Pet Services | -15,663.54 | 0.00 | 0.00 | 0.00 | -15,663.54 |
| 50106 | Shipping & Handling Revenue | -1,620,239.54 | 0.00 | 0.00 | 0.00 | -1,620,239.54 |
| 50110 | Warranty Cost | 8,654,206.67 | 1,581,948.92 | 686,745.75 | 0.00 | 10,922,901.34 |
| 50300 | Intercompany Sales | 0.00 | -3,412,956,538.88 | 0.00 | 3,412,956,538.88 | 0.00 |
| 50500 | Sales Refunds | 230,272,620.63 | 37,169,247.09 | 19,466,795.09 | 0.00 | 286,908,662.81 |
| 50510 | Sales Return Reserve | 57,780.52 | 9,472.09 | 4,224.65 | 0.00 | 71,477.26 |
| 50590 | Sales Refunds-Other | 176,251.54 | 0.00 | 0.00 | 0.00 | 176,251.54 |
| 51000 | Cost of Sales | 2,905,254,800.65 | 481,968,023.07 | 213,335,346.21 | 0.00 | 3,600,558,169.93 |
| 51500 | Cost of Sales - SCO | 9,691,581.31 | 1,505,695.44 | 1,255,619.13 | 0.00 | 12,452,895.88 |
| 51600 | Intercompany Cost of Sales | 262,436,294.03 | 3,111,172,779.27 | 20,563,066.62 | -3,394,172,139.92 | 0.00 |
| 51700 | Warranty Cost Reclass | -8,654,206.67 | -1,581,948.92 | -686,745.75 | 0.00 | -10,922,901.34 |
| 51800 | Sales Return Reserve Reclass | -31,263.44 | -5,125.11 | -2,285.85 | 0.00 | -38,674.40 |
| 51900 | Other Direct Cost of Merchandise | 88,711.50 | 22,049.10 | 3,593.00 | 0.00 | 114,353.60 |
| | | | | | | |
| 14100 | Inventory | 848,256,571.56 | 118,457,794.93 | 53,959,864.91 | 0.00 | 1,020,674,231.40 |
| 14850 | InterCo Markup on Inventory | 64,956,613.14 | 0.00 | 5,207,212.33 | -70,163,825.47 | 0.00 |

Source: Exhibit 30, TSC_00004558

SOUTH CAROLINA DEPARTMENT OF REVENUE

# Intercompany Transaction 3: Procurement

| GL Account | Account Description | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|---|
| 50100 | Gross Sales | -5,294,947,228.08 | -879,935,738.10 | -366,913,187.56 | 0.00 | -6,541,796,153.74 |
| 50102 | Pet Services | -178,745.44 | 0.00 | 0.00 | 0.00 | -178,745.44 |
| 50106 | Shipping & Handling Revenue | -1,866,188.06 | 0.00 | 0.00 | 0.00 | -1,866,188.06 |
| 50110 | Warranty Cost | 8,948,624.64 | 1,907,650.62 | 591,168.50 | 0.00 | 11,447,443.76 |
| 50300 | Intercompany Sales | 0.00 | -3,928,457,779.55 | 0.00 | 3,928,457,779.55 | 0.00 |
| 50500 | Sales Refunds | 244,557,103.96 | 40,570,940.67 | 20,057,423.36 | 0.00 | 305,185,467.99 |
| 50510 | Sales Return Reserve | 586,577.54 | 0.00 | 0.00 | 0.00 | 586,577.54 |
| 50590 | Sales Refunds-Other | 114,962.83 | 0.00 | 0.00 | 0.00 | 114,962.83 |
| 51000 | Cost of Sales | 3,164,757,295.63 | 533,363,289.80 | 221,156,414.29 | 0.00 | 3,919,276,999.72 |
| 51500 | Cost of Sales - SCO | 9,508,369.41 | 1,549,357.06 | 1,083,834.82 | 0.00 | 12,141,561.29 |
| 51600 | Intercompany Cost of Sales | 306,795,064.92 | 3,581,091,868.31 | 21,559,373.08 | -3,909,446,306.31 | 0.00 |
| 51700 | Warranty Cost Reclass | -8,948,624.64 | -1,907,650.62 | -591,168.50 | 0.00 | -11,447,443.76 |
| 51800 | Sales Return Reserve Reclass | -389,002.60 | 0.00 | 0.00 | 0.00 | -389,002.60 |
| 51900 | Other Direct Cost of Merchandise | 2,960.00 | 0.00 | 40.00 | 0.00 | 3,000.00 |
| | | | | | | |
| 14100 | Inventory | 997,947,780.36 | 140,624,483.56 | 59,907,339.00 | 0.00 | 1,198,479,602.92 |
| 14850 | InterCo Markup on Inventory | 82,631,184.67 | 0.00 | 6,544,114.04 | -89,175,298.71 | 0.00 |

Source: Exhibit 30, TSC_00004559

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Intercompany Transaction 3: Procurement

| Account | GL Account | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|---|
| 50100 | 50100 Gross Sales | -5,761,314,897.55 | -949,537,891.70 | -380,610,568.30 | 0.00 | -7,118,039,885.29 |
| 50102 | 50102 Pet Services | -274,148.28 | -1,370.75 | -3,763.90 | 0.00 | -2,812,439.23 |
| 50106 | 50106 Shipping & Handling Revenue | -2,650,590.63 | 0.00 | 0.00 | 0.00 | -2,650,590.63 |
| 50110 | 50110 Warranty Cost | 8,817,399.49 | 1,772,529.68 | 644,454.09 | 0.00 | 11,234,383.26 |
| 50300 | 50300 Intercompany Sales | 0.00 | -4,078,786,157.99 | 0.00 | 4,078,786,157.99 | 0.00 |
| 50500 | 50500 Sales Refunds | 265,646,175.72 | 43,972,794.73 | 20,172,340.47 | 0.00 | 330,421,322.70 |
| 50510 | 50510 Sales Return Reserve | 2,268,036.75 | 0.00 | 0.00 | 0.00 | 2,268,036.75 |
| 51000 | 51000 Cost of Sales | 3,457,058,334.29 | 581,217,594.07 | 230,753,504.29 | 0.00 | 4,269,029,432.65 |
| 51500 | 51500 Cost of Sales - SCO | 8,227,923.03 | 1,251,427.66 | 952,556.51 | 0.00 | 10,431,907.20 |
| 51600 | 51600 Intercompany Cost of Sales | 335,193,428.73 | 3,718,127,764.81 | 22,483,417.09 | -4,075,804,610.63 | 0.00 |
| 51700 | 51700 Warranty Cost Reclass | -8,817,399.49 | -1,772,529.68 | -644,454.09 | 0.00 | -11,234,383.26 |
| 51800 | 51800 Sales Return Reserve Reclass | -1,494,847.18 | 0.00 | 0.00 | 0.00 | -1,494,847.18 |
| 51900 | 51900 Other Direct Cost of Merchandise | 79,835.00 | 0.00 | 0.00 | 0.00 | 79,835.00 |
| 14100 | 14100 Inventory | 1,030,212,343.08 | 154,404,911.66 | 58,530,979.28 | 0.00 | 1,243,148,234.02 |
| 14850 | 14850 InterCo Markup on Inventory | 85,799,285.38 | 0.00 | 6,357,560.69 | -92,156,846.07 | 0.00 |

Source: Exhibit 30, TSC_00004560

SOUTH CAROLINA DEPARTMENT OF REVENUE

# 2014 Federal Consolidated Return

Tractor Supply Company & Subs

**Consolidated Schedules**

**1120 Page 1**

| | | Tractor Supply Company | Tractor Supply Co of Michigan, LLC | Tractor Supply Co of Texas, LP |
|---|---|---|---|---|
| | | 13-3139732 | 62-1859502 | 62-1859500 |
| 1a | Gross receipts or sales | 4,860,945,530. | 356,350,843. | 4,205,454,200. |
| 1b | Returns and allowances | 239,160,861. | 20,157,766. | 38,760,668. |
| 1c | Balance | 4,621,784,669. | 336,193,077. | 4,166,693,532. |
| 2 | Cost of goods sold | 3,270,543,684. | 239,544,917. | 3,607,571,919. |
| 3 | Gross profit | 1,351,240,985. | 96,648,160. | 559,121,613. |
| 4 | Dividends | 43,444. | | |
| 5 | Interest | 12,452. | 160. | 1. |
| 6 | Gross rents | 388,956. | 4,438. | 55,058. |
| 7 | Gross royalties | | | |
| 8 | Capital gain net income | | | |
| 9 | Net gain or (loss) from Form 4797 | -1,102,197. | -17,718. | -18,902. |
| 10 | Other income | 57,676,029. | -8,747,758. | -17,895,307. |
| 11 | Total income | 1,408,259,669. | 87,887,282. | 541,262,463. |

Source: Joint Exhibit 6 at TSC_00001667

# 2015 Federal Consolidated Return

Tractor Supply Company & Subs

| Consolidated Schedules 1120 Page 1 | | Tractor Supply Company | Tractor Supply Co of Michigan, LLC | Tractor Supply Co of Texas, LP |
|---|---|---|---|---|
| | | 13-3139732 | 62-1859502 | 62-1859500 |
| 1a | Gross receipts or sales | 5,296,992,161. | 366,913,188. | 4,808,393,518. |
| 1b | Returns and allowances | 254,207,270. | 20,648,592. | 42,478,592. |
| 1c | Balance | 5,042,784,891. | 346,264,596. | 4,765,914,926. |
| 2 | Cost of goods sold | 3,583,873,587. | 252,752,937. | 4,143,371,271. |
| 3 | Gross profit | 1,458,911,304. | 93,511,659. | 622,543,655. |
| 4 | Dividends | 54,268. | | |
| 5 | Interest | 10,254. | | 16. |
| 6 | Gross rents | 244,931. | 4,478. | 55,524. |
| 7 | Gross royalties | | | |
| 8 | Capital gain net income | | | |
| 9 | Net gain or (loss) from Form 4797 | -2,707,195. | -454,515. | -198,744. |
| 10 | Other income | 58,304,386. | -9,519,850. | -19,317,124. |
| 11 | Total income | 1,514,817,948. | 83,541,772. | 603,083,327. |

Source: Joint Exhibit 7 at TSC_00001819

# 2016 Federal Consolidated Return

Tractor Supply Company & Subs

**Consolidated Schedules**
**1120 Page 1**

| | | Tractor Supply Company | Tractor Supply Co of Texas, LP | Tractor Supply Co of Michigan, LLC |
|---|---|---|---|---|
| | | 13-3139732 | 62-1859500 | 62-1859502 |
| 1a | Gross receipts or sales | 5,792,971,198. | 5,028,600,779. | 380,717,097. |
| 1b | Returns and allowances | 277,361,624. | 45,745,325. | 20,816,794. |
| 1c | Balance | 5,515,609,574. | 4,982,855,454. | 359,900,303. |
| 2 | Cost of goods sold | 3,935,481,108. | 4,329,255,767. | 261,861,133. |
| 3 | Gross profit | 1,580,128,466. | 653,599,687. | 98,039,170. |
| 4 | Dividends | 70,755. | | |
| 5 | Interest | 46,963. | 2. | |
| 6 | Gross rents | 351,515. | 55,057. | 4,120. |
| 7 | Gross royalties | | | |
| 8 | Capital gain net income | | | |
| 9 | Net gain or (loss) from Form 4797 | -1,662,890. | -220,609. | -225,277. |
| 10 | Other income | 62,596,834. | -19,520,922. | -9,829,064. |

Source: Joint Exhibit 8 at TSC_00001978

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Dr. David DeRamus

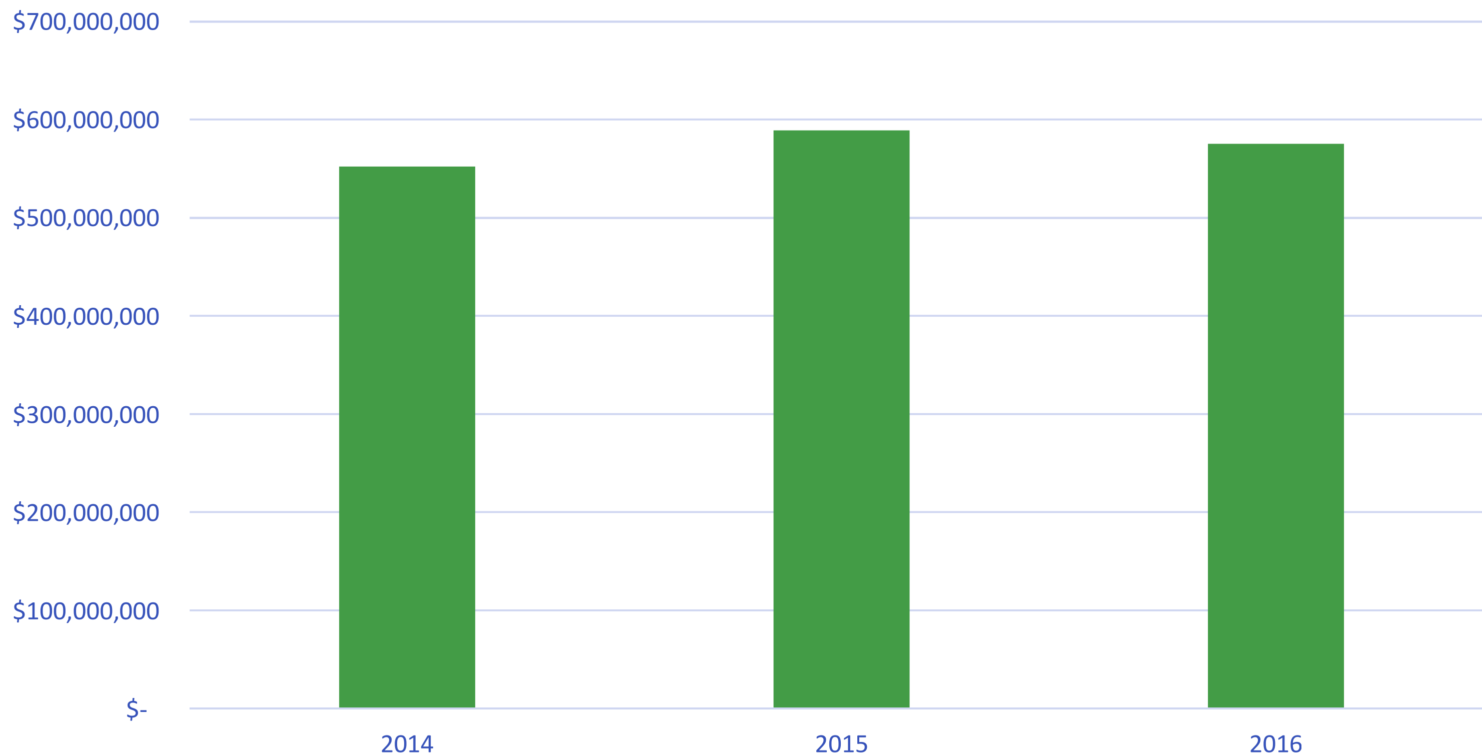
TRACTOR SUPPLY COMPANY

V.

SOUTH CAROLINA DEPARTMENT OF REVENUE

19-ALJ-17-0416-CC

# Taxable Income for Tractor Supply (Consolidated)




Source: Joint Ex. 5, TSC_00001601 at 1604
Joint Ex. 6, TSC_00001755 at 1756
Joint Ex. 7, TSC_00001907 at 1908

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Profitability ratios of Tractor Supply (consolidated)

| | FY2014 | FY2015 | FY2016 | Audit Period |
|---|---|---|---|---|
| Operating Margin | 10.3% | 10.4% | 10.2% | 10.3% |
| Markup on Total Costs | 11.5% | 11.7% | 11.4% | 11.5% |
| Return on Assets | 33.5% | 32.4% | 30.0% | 31.8% |

Source: Joint Ex. 2, 2015 10-K at pp. 39 and 42
Joint Ex. 3, 2016 10-K at pp. 43 and 45

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Operating Margin for other retailers

| Primary Industry | Company | FY2014 | FY2015 | FY2016 | Period |
|---|---|---|---|---|---|
| Apparel Retail | Bath & Body Works, Inc. | 17.1% | 18.0% | 16.2% | 17.1% |
| | Boot Barn Holdings, Inc. | 8.8% | 7.3% | 6.2% | 7.2% |
| | Burlington Stores, Inc. | 4.9% | 5.5% | 6.8% | 5.8% |
| | Citi Trends, Inc. | 1.9% | 3.5% | 2.8% | 2.8% |
| | Claire's Stores, Inc. | 9.9% | 9.6% | 8.8% | 9.4% |
| | Foot Locker, Inc. | 11.3% | 12.7% | 12.9% | 12.3% |
| | Ross Stores, Inc. | 13.5% | 13.6% | 14.0% | 13.7% |
| | The Cato Corporation, Inc. | 8.3% | 9.2% | 5.3% | 7.6% |
| | The Finish Line, Inc. | 7.8% | 5.0% | 3.9% | 5.5% |
| | The Men's Wearhouse, Inc. | -1.5% | -21.0% | 13.1% | -3.2% |
| | The TJX Companies, Inc. | 12.4% | 12.0% | 11.6% | 12.0% |
| | Zumiez, Inc. | 9.6% | 6.2% | 5.0% | 6.9% |
| Automotive Retail | Advance Auto Parts, Inc. | 9.5% | 9.0% | 8.7% | 9.1% |
| | AutoZone, Inc. | 19.6% | 19.4% | 19.7% | 19.6% |
| | Genuine Parts Company | 7.3% | 7.3% | 7.1% | 7.2% |
| | O-Reilly Automotive, Inc. | 18.2% | 19.6% | 20.3% | 19.4% |
| Department Stores | Dillard's, Inc. | 8.3% | 6.8% | 5.1% | 6.8% |
| | Kohl's Corporation | 8.9% | 8.1% | 7.0% | 8.0% |
| | Nordstrom, Inc. | 8.3% | 6.8% | 5.0% | 6.7% |
| Food Retail | Alcanna, Inc. | 4.1% | 3.6% | 3.6% | 3.8% |
| | Natural Grocers by Vitamin Cottage, Inc. | 4.7% | 4.6% | 2.9% | 4.0% |
| | Rocky Mountain Liquor, Inc. | 4.7% | 4.9% | 2.2% | 4.0% |
| | Weis Markets, Inc. | 2.9% | 3.1% | 3.2% | 3.1% |

Source: Joint Exhibit 43 (SCDOR_004126)

ROA_004541

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Operating Margin for Tractor Supply and other retailers (cont.)

| Primary Industry | Company | FY2014 | FY2015 | FY2016 | Period |
|---|---|---|---|---|---|
| General Merchandise Stores | 99 Cents only Stores LLC | 3.7% | -2.5% | -2.5% | -0.5% |
| | Big Lots, Inc. | 4.4% | 4.6% | 4.8% | 4.6% |
| | Costco Wholesale Corporation | 2.8% | 3.1% | 3.2% | 3.0% |
| | Dollar General Corporation | 9.4% | 9.6% | 9.5% | 9.5% |
| | Dollar Tree, Inc. | 12.4% | 8.0% | 8.2% | 9.0% |
| | Dollarama, Inc. | 18.1% | 20.7% | 21.8% | 20.4% |
| | Fred's, Inc. | -2.5% | -1.0% | -3.3% | -2.3% |
| | PriceSmart, Inc. | 5.5% | 5.3% | 4.7% | 5.2% |
| | Target Corporation | 6.4% | 6.9% | 7.1% | 6.8% |
| | Tuesday Morning Corporation | 0.2% | 1.4% | 0.3% | 0.6% |
| | Walmart, Inc. | 5.6% | 5.0% | 4.7% | 5.1% |
| Home Improvement Retail | Lowe's Companies, Inc. | 8.6% | 9.4% | 9.1% | 9.0% |
| | Rona Inc. | 2.8% | 3.6% | | 3.2% |
| | The Home Depot, Inc. | 12.6% | 13.3% | 14.2% | 13.4% |

Source: Joint Exhibit 43 (SCDOR_004126)

# Operating Margin for Tractor Supply and other retailers (cont.)

| Primary Industry | Company | FY2014 | FY2015 | FY2016 | Period |
|---|---|---|---|---|---|
| Specialty Stores | Barnes & Noble, Inc. | 2.1% | 0.7% | 1.8% | 1.5% |
| | Cabela's L.L.C. | -2.6% | -4.3% | -5.4% | -4.1% |
| | Calloway's Nursery | 8.3% | 6.5% | | 7.4% |
| | DAVIDs TEA Inc. | 10.4% | 8.4% | 4.9% | 7.5% |
| | Five Below, Inc. | 11.3% | 11.2% | 11.4% | 11.3% |
| | Hibbett, Inc. | 12.9% | 11.9% | 9.9% | 11.6% |
| | Michaels Stores | 14.2% | 14.7% | 13.9% | 14.3% |
| | Sally Beauty Holdings, Inc. | 13.6% | 13.0% | 12.7% | 13.1% |
| | Staples, Inc. | 4.7% | 4.9% | 4.9% | 4.9% |
| | West Marine, Inc. | 0.7% | 1.1% | 1.7% | 1.2% |
| | **25th Percentile** | **4.1%** | **3.6%** | **3.6%** | **3.8%** |
| | **Median** | **8.3%** | **6.8%** | **6.2%** | **6.9%** |
| | **75th Percentile** | **11.3%** | **11.2%** | **11.4%** | **11.3%** |

| | | | | |
|---|---|---|---|---|
| **Tractor Supply** | **10.3%** | **10.4%** | **10.2%** | **10.3%** |

Source: Joint Exhibit 43 (SCDOR_004126)

ROA_004543

# Markup on Total Costs for other retailers

| Company | FY2014 | FY2015 | FY2016 | Period |
|---|---|---|---|---|
| 25th Percentile | 4.3% | 3.8% | 3.7% | 3.9% |
| Median | 9.1% | 7.3% | 6.6% | 7.4% |
| 75th Percentile | 12.8% | 12.6% | 12.9% | 12.7% |

| | | | | |
|---|---|---|---|---|
| Tractor Supply | 11.5% | 11.7% | 11.4% | 11.5% |

Source: Joint Exhibit 43 (SCDOR_004126)

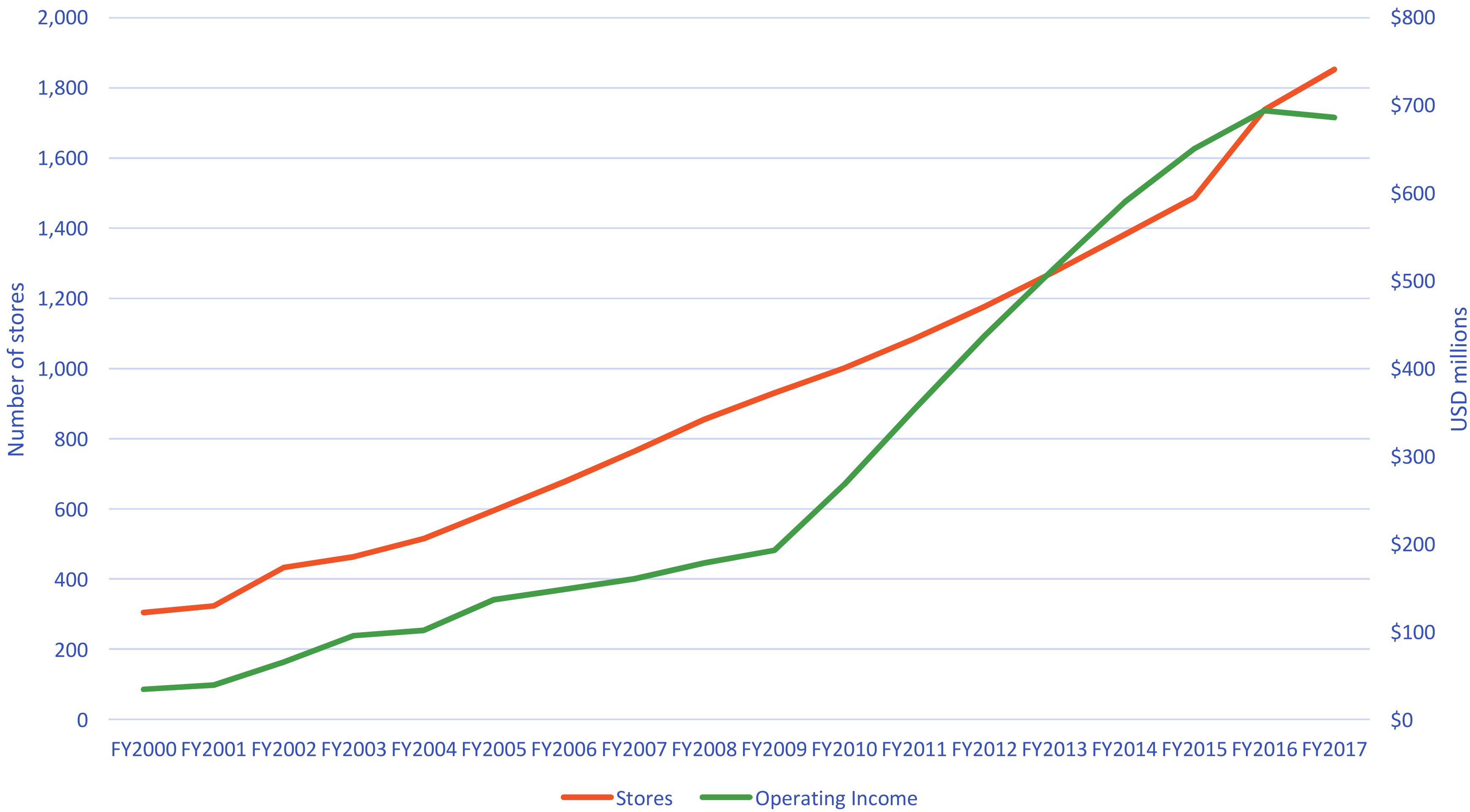
SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Return on Operating Assets for other retailers

| Company | FY2014 | FY2015 | FY2016 | Period |
|---|---|---|---|---|
| **$25^{th}$ Percentile** | 9.9% | 9.9% | 8.8% | 9.3% |
| **Median** | 16.5% | 14.5% | 13.9% | 14.6% |
| **$75^{th}$ Percentile** | 27.0% | 26.0% | 25.7% | 24.6% |
| **Tractor Supply** | 33.5% | 32.4% | 30.0% | 31.8% |

Source: Joint Exhibit 43 (SCDOR_004126)

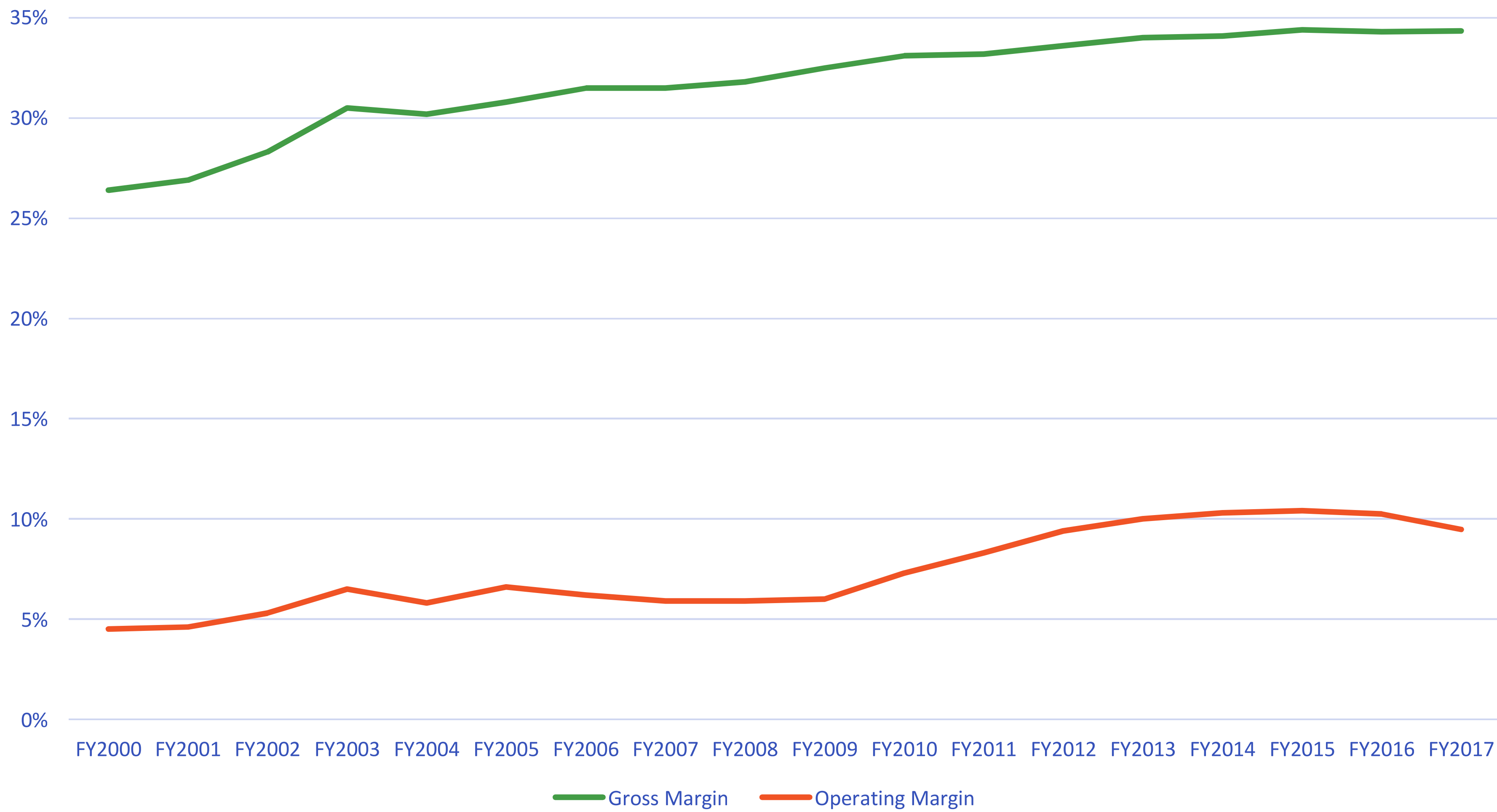
# Tractor Supply operating profits and number of stores




Source: CapitalIQ

ROA_004546

# Tractor Supply gross margins and operating margins




Source: CapitalIQ

ROA_004547

# Tractor Supply's 's statements r.e. its "current and long-term growth strategy"

(1) expand domestic geographic market presence through **opening new retail stores**,

(2) enhance financial performance through **comparable store sales growth achieved through targeted merchandising and marketing programs with an "everyday value price" philosophy supported by strong customer service**,

(3) enhance product margin through **strategic product sourcing, inventory and markdown management, a strong exclusive brand offering, and optimization of product pricing and transportation costs**,

(4) leverage operating costs by focusing on opportunities for **continuous improvement and elimination of waste** in all of our processes,

(5) expand market opportunities via **e-commerce and internet-supported sales** by improving our website product content and enhancing the online experience, and

(6) expand through **selective acquisition, as such opportunities arise, to enhance penetration into new and existing markets** to complement organic growth.

Source: Joint Ex. 1, 2014 10-K at p. 5

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Tractor Supply's statements r.e. its retail employees

We seek to hire **store team members with farming and ranching backgrounds**, with particular emphasis on general maintenance, equine and welding. We endeavor to staff our stores with courteous, highly motivated team members and **devote considerable resources to training store team members**, often in cooperation with our vendors. Our training programs include:

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

Source: Joint Ex. 1, 2014 10-K at p. 1-2

# Tractor Supply's statements r.e. localization

One of the things that we're focused on today is what we call **localization, understanding that local Tractor Supply in that small town and what are the needs in that store versus the store that may be located 40 or 50 miles away**. It's difficult to do. It takes a lot of talent and a lot of systems work. But we understand it better today than we have. We continue to work on it. But **localization is important. Having the right mix in that store, in that market is what Tractor is about**.

Source: Statement of Gregory A. Sandfort, CEO & Director of TSC (Tractor Supply Company Conference Presentation, November 18, 2015, page 6)

# Tractor Supply's statements r.e. store design and product display

Our **stores are designed and managed to make shopping an enjoyable experience and to maximize sales and operating efficiencies**. Stores are strategically arranged to provide an open environment for **optimal product placement** and visual display. In addition, these **layouts allow for departmental space to be easily reallocated and visual displays to be changed for seasonal products and promotions**. Display and product placement information is **sent to stores weekly** to ensure quality and uniformity among the stores. Informative signs are located throughout each store to assist customers with purchasing decisions and merchandise location. These signs **provide customers with a comparison of product qualities, clear pricing and useful information regarding product benefits and suggestions for appropriate accessories**.

Source: Joint Ex. 1, 2014 10-K at p. 2

# Tractor Supply's statements r.e. marketing and consumer loyalty program

As you look into 2017, I think you will continue to see an **evolution of where we're putting our marketing dollars**. We'll be spending more of those dollars on things that are **more digital**. We will be taking advantage of our **Neighbor's Club program as we continue to scale that out and talking to our consumers**. And we'll continue to evolve based on what they're wanting from us. And we can measure that through the **response rates** and a lot of what we do. So we've always said **the customer drives where we go and in this case, we are going to get in the backseat and let them take us for a ride**.

Source: Statement of Steve K. Barbarick, President & COO of TSC (Tractor Supply Company FQ4 2016 Earnings Call Transcripts, February 1, 2017, page 24)

# Tractor Supply’s statements r.e. online presence and sales

The other thing I would tell you is that our customers use our site for a variety of reasons, and **our web businesses, last year we're up 20%,** which is exciting. And the other exciting thing is **our store locator activity was up over 20%**. So not only are customers finding us through the site, but there are actually **many new customers using that store locator to come into our brick-and-mortar space**. Our **sales online continue to grow. While they're still less than 1% of our sales, we're very encouraged with the growth rate that we're seeing**. We've doubled the amount of Drop Ship Vendors we had from year-over-year. **We've got 75,000plus SKUs now that you're -- you have access to online, compared to about 15,000 to 20,000 inside the store.** And what's also exciting is about **half of our sales online are from products that you can't find in one of our stores**. So we see that as a **growth opportunity for incremental comp store sales** as we continue to expand that out. So that's kind of an overview and an update, and I would tell you that our customers are responding very favorably to what we have to offer them.

Source: Statement of Steve K. Barbarick, President & COO of TSC (Tractor Supply Company FQ4 2016 Earnings Call Transcripts, February 1, 2017, page 21)

ROA_004553

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Tractor Supply's 's statements r.e. its vendors

"Our products are sourced through both domestic and international vendors. Our **business is not dependent upon any one vendor or particular group of vendors**. We purchase our products from a group of approximately **850 vendors, with no one vendor representing more than 10% of our purchases** during fiscal 2016. Approximately **300 core vendors accounted for 90% of our merchandise purchases** during fiscal 2016. We have not experienced any significant difficulty in obtaining satisfactory alternative sources of supply for our products, and we believe that **adequate sources of supply exist at substantially similar costs for nearly all of our products. We have no material long- term contractual commitments with any of our product vendors**."

Source: Joint Exhibit 3, 2016 10-K at page 3

SOUTH CAROLINA DEPARTMENT OF REVENUE

# Tractor Supply sales by product type

| | Percent of Net Sales | | |
|---|---|---|---|
| **Product Category:** | **2016** | **2015** | **2014** |
| Livestock and Pet | 46% | 44% | 44% |
| Hardware, Tools and Truck | 22 | 23 | 22 |
| Seasonal, Gift and Toy Products | 19 | 20 | 20 |
| Clothing and Footwear | 8 | 8 | 9 |
| Agriculture | 5 | 5 | 5 |
| Total | 100% | 100% | 100% |

Source: Joint Exhibit 3, 2016 10-K at p. 67

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Tractor Supply consolidated balance sheet

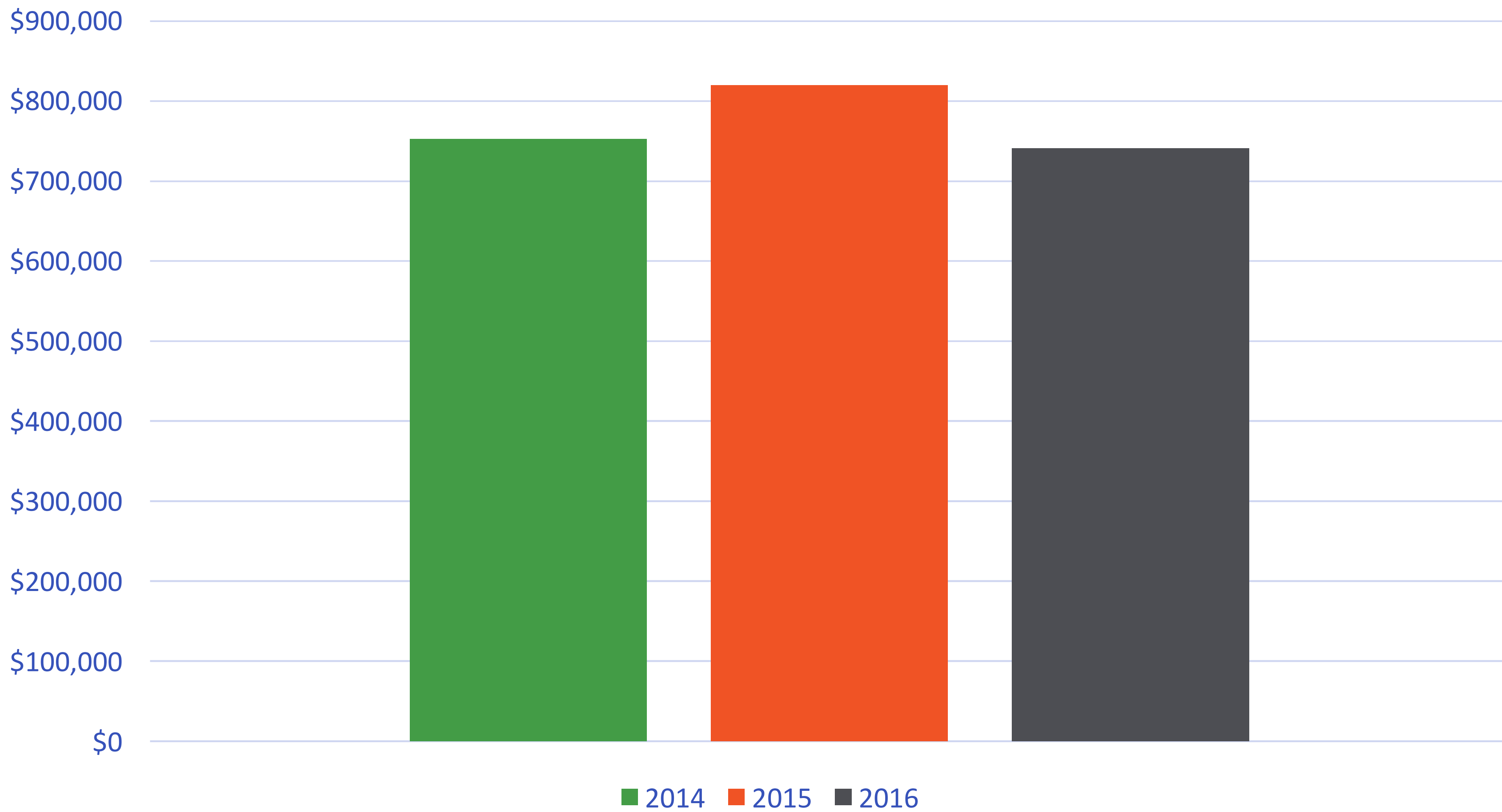
| | December 31, 2016 | December 26, 2015 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 53,916 | $ 63,813 |
| Inventories | 1,369,656 | 1,284,375 |
| Prepaid expenses and other current assets | 90,557 | 87,510 |
| Income taxes receivable | 3,680 | 3,763 |
| Total current assets | 1,517,809 | 1,439,461 |
| Property and equipment: | | |
| Land | 94,940 | 86,991 |
| Buildings and improvements | 965,582 | 814,802 |
| Furniture, fixtures and equipment | 567,653 | 523,383 |
| Computer software and hardware | 224,370 | 180,020 |
| Construction in progress | 21,320 | 38,720 |
| Property and equipment, gross | 1,873,865 | 1,643,916 |
| Accumulated depreciation and amortization | (911,557) | (796,340) |
| Property and equipment, net | 962,308 | 847,576 |
| Goodwill and other intangible assets | 125,717 | 10,258 |
| Deferred income taxes | 45,218 | 55,194 |
| Other assets | 23,890 | 18,337 |
| Total assets | $ 2,674,942 | $ 2,370,826 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 519,522 | $ 427,249 |
| Accrued employee compensation | 25,246 | 42,684 |
| Other accrued expenses | 215,650 | 195,024 |
| Current portion of long- term debt | 10,000 | — |
| Current portion of capital lease obligations | 1,294 | 878 |
| Income taxes payable | 5,482 | 5,449 |
| Total current liabilities | 777,194 | 671,284 |
| Long- term debt | 263,850 | 150,000 |
| Capital lease obligations, less current maturities | 25,919 | 16,992 |
| Deferred rent | 100,078 | 84,793 |
| Other long- term liabilities | 54,683 | 54,463 |
| Total liabilities | 1,221,724 | 977,532 |

Source: Joint Exhibit 3, 2016 10-K at p. 45

ROA_004556

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Average inventory per store for Tractor Supply (consolidated)




Source: Joint Exhibit 3, 2016 10-K at p. 19

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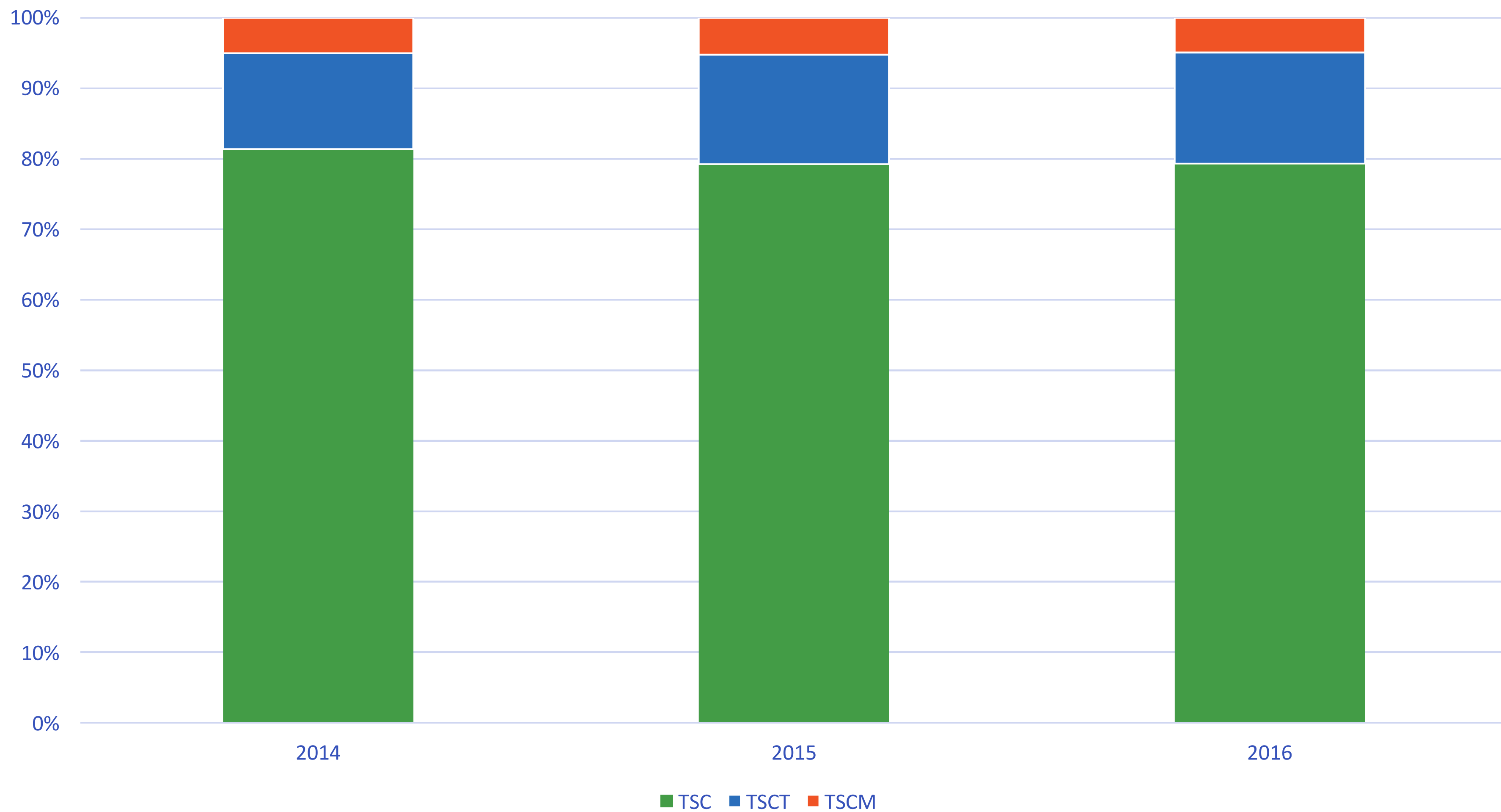
# Share of retail sales in TSC, TSC Texas, and TSC Michigan

| | 2014 | 2015 | 2016 | Audit Period |
|---|---|---|---|---|
| TSC | 80.9% | 81.0% | 81.3% | 81.1% |
| TSCT | 13.2% | 13.5% | 13.4% | 13.4% |
| TSCM | 5.9% | 5.6% | 5.3% | 5.6% |

Source: Joint Ex. 5 at TSC_00001667
Joint Ex. 6 at TSC_00001819
Joint Ex. 7 at TSC_00001978
Joint Ex. 51 at TSC_00006116

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

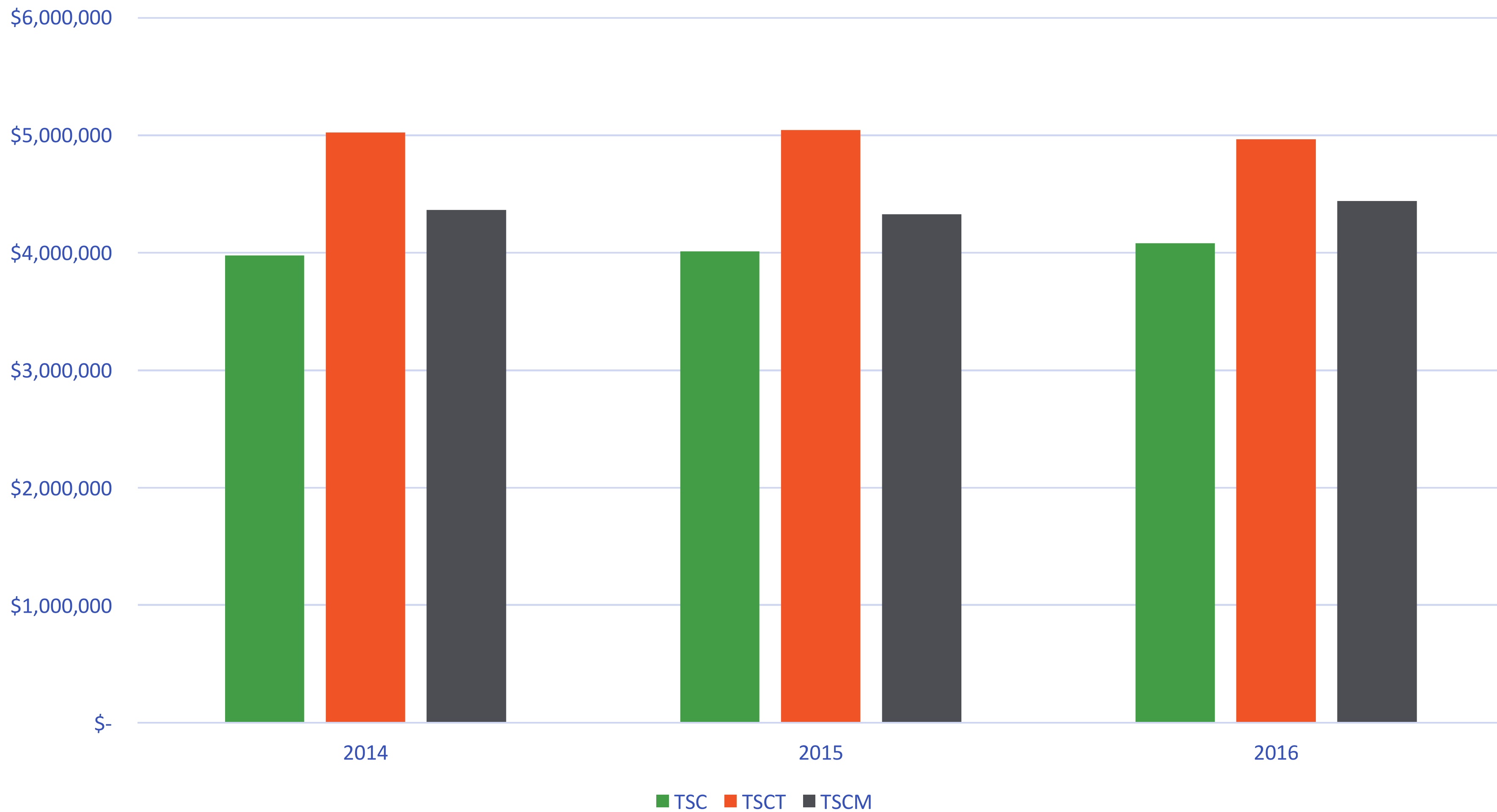
# Share of inventory held by TSC, TSC Texas, and TSC Michigan




Source: Joint Exhibit 5 at TSC_00001679 and 1681
Joint Exhibit 6 at TSC_00001832 and 1834
Joint Exhibit 7 at TSC_00001991 and 1993

ROA_004560

# Retail sales per store




Source: Joint Exhibit 30 (TSC_00004558, TSC_00004559, TSC_00004560)
Joint Exhibit 51 at TSC_00006116

# Operating margins for South Carolina, Texas, and Michigan retail stores (pre-transfer pricing and excluding HQ expenses)


Source: SCDOR Exhibit 30 at TSC_00006063

# Intercompany Transaction 1: TSC lease of Michigan retail employees to TSCM

| GL Account | GL Account Description | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|---|
| 60340 | 60340 InterCo Payroll Expense | 23,371,047.00 | 0.00 | -23,371,047.00 | 0.00 | 0.00 |
| 96942 | 96942 Shared Services Income | -25,708,151.70 | 0.00 | 0.00 | 25,708,151.70 | 0.00 |
| 96943 | 96943 Shared Services Expense | 0.00 | 0.00 | 25,708,151.70 | -25,708,151.70 | 0.00 |

Source: Joint Exhibit 30 at TSC_00004559 (2015)

# Intercompany Transaction 2: Allocation of TSC HQ admin expenses (excl. purchasing)

| Tractor Supply Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2015 Administrative Services Charge | | | | | | | | |
| Department | Description | Total Expense | # of Employees in TX | # of Employees in MI | Total Employees | TX Cost | MI Cost | Total Cost |
| 895 | Recruiting | 1,341,426 | 2156 | 992 | 22182 | 130,381 | 59,990 | |
| 900 | Executive | 8,627,509 | 2156 | 992 | 22182 | 838,559 | 385,830 | |
| 912 | Tax | 1,758,606 | 2156 | 992 | 22182 | 170,929 | 78,647 | |
| 914 | Payroll | 2,401,203 | 2156 | 992 | 22182 | 233,387 | 107,384 | |
| 917 | Human Resources | 1,279,189 | 2156 | 992 | 22182 | 124,332 | 57,207 | |
| 918 | Benefits | 1,938,460 | 2156 | 992 | 22182 | 188,410 | 86,690 | |
| 919 | Training | 1,926,190 | 2156 | 992 | 22182 | 187,218 | 86,141 | |
| 930 | Office Services - Less Total Occ | 1,209,384 | 2156 | 992 | 22182 | 117,547 | 54,085 | |
| 993 | Fringe Benefits | 29,024,625 | 2156 | 992 | 22182 | 2,821,075 | 1,298,009 | |
| Total | | 49,506,594 | | | | 4,811,839 | 2,213,982 | 7,025,821 |
| Department | Description | Total Expense | # of Stores in TX | # of Stores in MI | Total Stores | TX Cost | MI Cost | Total Cost |
| NET IT | NET of IT Cost Centers | 37,337,750 | 138 | 72 | 1276 | 4,038,095 | 2,106,832 | |
| 896 | Store Services | 2,518,207 | 138 | 72 | 1276 | 272,345 | 142,093 | |
| 899 | Internal Audit | 1,904,288 | 138 | 72 | 1276 | 205,950 | 107,452 | |
| 902 | Advertising | 3,220,660 | 138 | 72 | 1276 | 348,316 | 181,730 | |
| 909 | General Accounting | 1,404,712 | 138 | 72 | 1276 | 151,920 | 79,263 | |
| 910 | Accounts Payable | 1,482,995 | 138 | 72 | 1276 | 160,387 | 83,680 | |
| 911 | Inventory Audit | 879,947 | 138 | 72 | 1276 | 95,167 | 49,652 | |
| 915 | Accounting Mgmt | 2,114,529 | 138 | 72 | 1276 | 228,687 | 119,315 | |
| 916 | Finance | 501,098 | 138 | 72 | 1276 | 54,194 | 28,275 | |
| 921 | Loss Prevention | 2,036,343 | 138 | 72 | 1276 | 220,231 | 114,903 | |
| 922 | Relocation Teams | 720,058 | 138 | 72 | 1276 | 77,875 | 40,630 | |
| 923 | Legal | 3,502,473 | 138 | 72 | 1276 | 378,794 | 197,632 | |
| 928 | Financial Planning | 1,934,557 | 138 | 72 | 1276 | 209,223 | 109,160 | |
| 938 | TVS | 518,491 | 138 | 72 | 1276 | 56,075 | 29,257 | |
| 988 | Real Estate | 4,108,302 | 138 | 72 | 1276 | 444,315 | 231,816 | |
| Total | | 64,184,409 | | | | 6,941,574 | 3,621,691 | 10,563,265 |
| *DC* | | | | | | | | |
| Department | Description | Total Expense | # of Texas DC's | | Total DC's | TX Cost | MI Cost | Total Cost |
| 937 | DC IT | - | 1 | | 7 | - | | |
| 940 | DC Management | 2,571,843 | 1 | | 7 | 367,406 | | |
| 941 | Human Res. - DC | 1,253,248 | 1 | | 7 | 179,035 | | |
| Total | | 3,825,091 | | | | 546,442 | | 546,442 |
| *Advertising* | | | | | | | | |
| | Description | Total Expense | # of Stores in TX | # of Stores in MI | Total Stores | TX Cost | MI Cost | Total Cost |
| | Advertising Costs | 65,552,779 | 138 | 72 | 1276 | 7,089,564 | 3,698,903 | 10,788,467 |
| Grand Total | | 183,068,873 | | | | 19,389,419 | 9,534,575 | 28,923,994 |

Source: SCDOR Exhibit 29 at TSC_00004356

ROA_004564

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Intercompany Transaction 2: Allocation of TSC HQ admin expenses (excl. purchasing) (cont.)

| GL Account | GL Account Description | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|---|
| 96940 | 96940 InterCo Admin Expense | 0.00 | 19,389,418.68 | 9,534,575.28 | -28,923,993.96 | 0.00 |
| 96941 | 96941 Administrative Fee Income | -28,923,993.96 | 0.00 | 0.00 | 28,923,993.96 | 0.00 |

Source: Joint Exhibit 30 at TSC_00004559, "2015"

# Intercompany Transaction 3: TSCT purchasing expenses

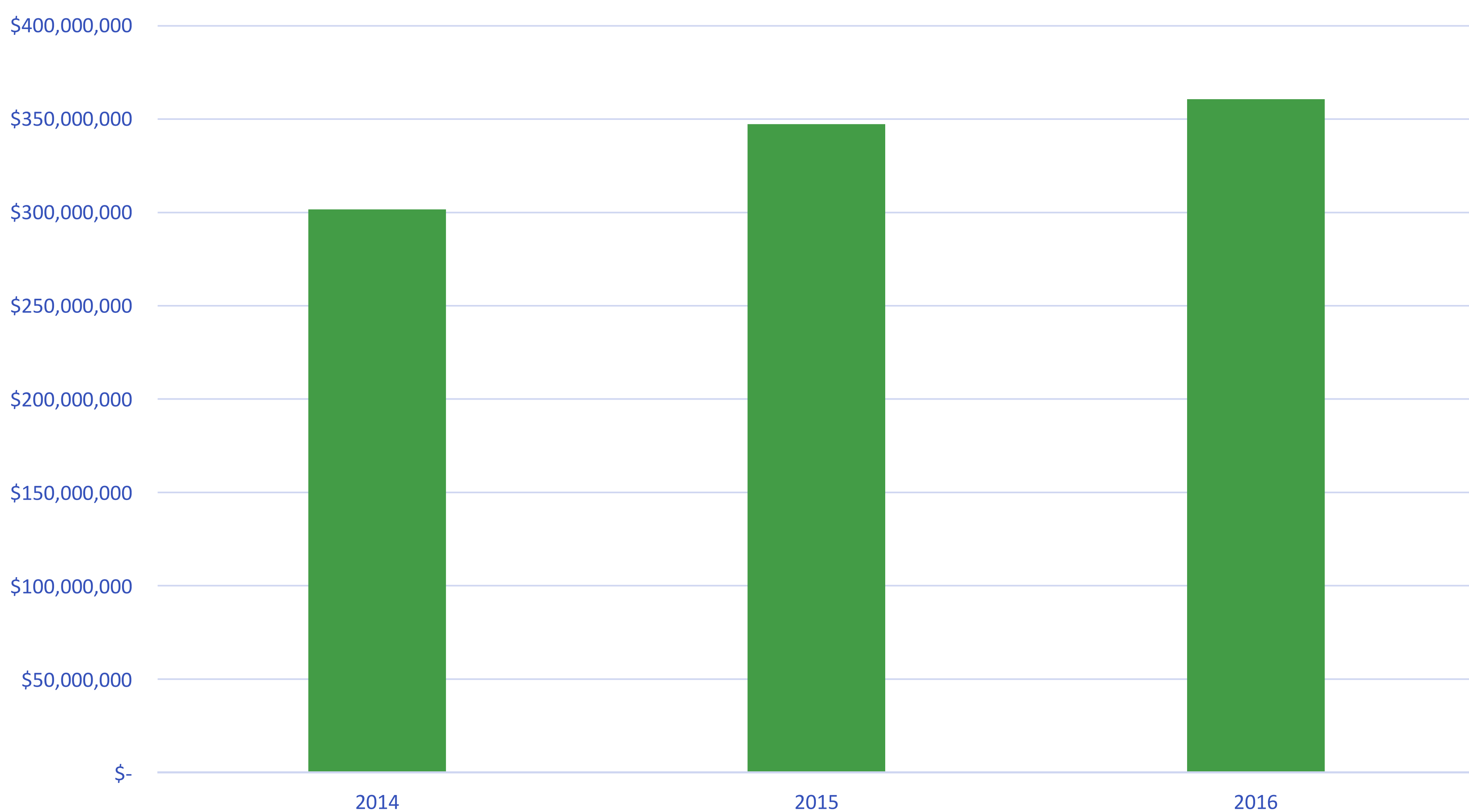
| GL Account Description | TX | | Buyer Cost Centers 901, 913, 924, 939, 950, 952, 953, 955 |
|---|---|---|---|
| **60100 Salaries** | **18,247,007** | | **8,188,187** |
| **60150 Hourly Wages** | **36,568,988** | | **748,674** |
| **60200 Salaries-Overtime** | **3,636,066** | | **74,159** |
| **60250 Salaries-Vacation** | **30,772** | | **13,764** |
| **60300 Salaries-Sick, Other** | **131,225** | | **23,999** |
| **60325 Paid Absence** | **2,751,442** | | **130,268** |
| **60375 Accrued Wages** | **141,804** | | **18,285** |
| **61000 Bonus Incentive** | **4,129,652** | | **20,000** |
| **62100 Payroll Taxes** | **5,225,526** | | **705,778** |
| **62301 Medical Insurance Allocation** | - | [redacted] | 674,175 |
| **62302 H & W Administration Allocati** | - | | 135,987 |
| **62304 LTD Allocation** | - | | 32,370 |
| **62306 STD Allocation** | - | | 17,738 |
| **62307 Affordable Care Allocation** | - | | 10,339 |
| **62328 401(k) Allocation** | - | | 113,000 |
| **62331 Stock Based Compensation** | 1,841,220 | | - |
| **63500 Temporary Help** | 153,072 | | 72,967 |
| 63601 Drug Testing Alloc | - | | 25,046 |
| 65150 Travel Expense | 13,613 | | 13,613 |
| 65151 Airfare | 217,112 | | 210,552 |
| 65152 Car Rental | 29,617 | | 20,575 |
| 65153 Hotel | 251,546 | | 136,157 |
| 65154 Mileage Reimbursement | 199,514 | | 4,751 |
| 65155 Misc Travel Expense | 42,126 | | 24,052 |
| 65160 Employee Meals while Traveling | 34,036 | | 15,266 |
| 65170 Business Meals | 24,736 | | 19,389 |
| 65500 Meeting Expense | 120,834 | | 117,826 |
| 65550 Meals at Meetings | 13,440 | | 9,563 |
| 65560 Company Events | 75,957 | | 75,798 |
| 65570 Vendor Support - Str Mgr Mtg | (120,845) | | (120,845) |
| 67001 Leased Car Gas | 575 | | 326 |
| **70150 InterCo Rent Expens** | **185,015** | | **-** |
| 75500 Depreciation - Personal Property | 6,551,883 | [redacted] | 36,391 |
| 90110 Telephone - Cell | 58,893 | | 54,341 |
| 90120 Telephone - Internet | 599 | | 114 |
| 90130 Telephone - Conference Call | 2,485 | | 2,121 |
| 90140 Telephone - Frame Relay | (334) | | (227) |
| 90150 Telephone - Broadband | 524,933 | | 4,123 |
| 90500 Display & Merchandise Expense | 730,960 | | 6,931 |
| 90505 Supplies-Supply Chest | 1,170,622 | | 341 |
| 90510 Office Supplies | 156,950 | | 4,953 |
| 90511 Supplies - Store Use | 187,244 | | 763 |
| 90520 Printing Supplies | 65,511 | | 291 |
| 91000 Postage Expense | 74,813 | | 6,164 |
| 94131 Grand Opening Promotion | 3,448 | | 52 |
| 94135 Miscellaneous Expense/Other | (34,667) | | 9,939 |
| 94500 Education & Training | 18,762 | | 18,174 |
| 94600 Dues & Subscriptions | 10,668 | | 5,382 |
| 94700 Charitable Contributions | 95,155 | | 93,257 |
| 94750 Miscellaneous Tax Expense | 97 | | 97 |
| 94800 Licensing & Permits | 251,983 | | 1,427 |
| **96120 Outside Services - Fees** | **1,154,094** | | **1,075,937** |
| 96620 Training Materials | 3,559 | [redacted] | 975 |
| 96650 Employee Relations | 101,242 | | 2,767 |
| **96940 InterCo Admin Expense** | **19,389,419** | | **-** |
| 98100 Current Federal Income Tax | 152,472,913 | [redacted] | - |
| 98300 State Income Tax | 11,048,445 | | - |
| **Net Income** | **(275,568,146)** | | **12,856,074** |
| **Pretax Income** | **(89,089,504)** | | **12,856,074** |

ROA_004566

Source: Joint Exhibit 52 at TSC_00006607, "Procurement TB 2015"

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

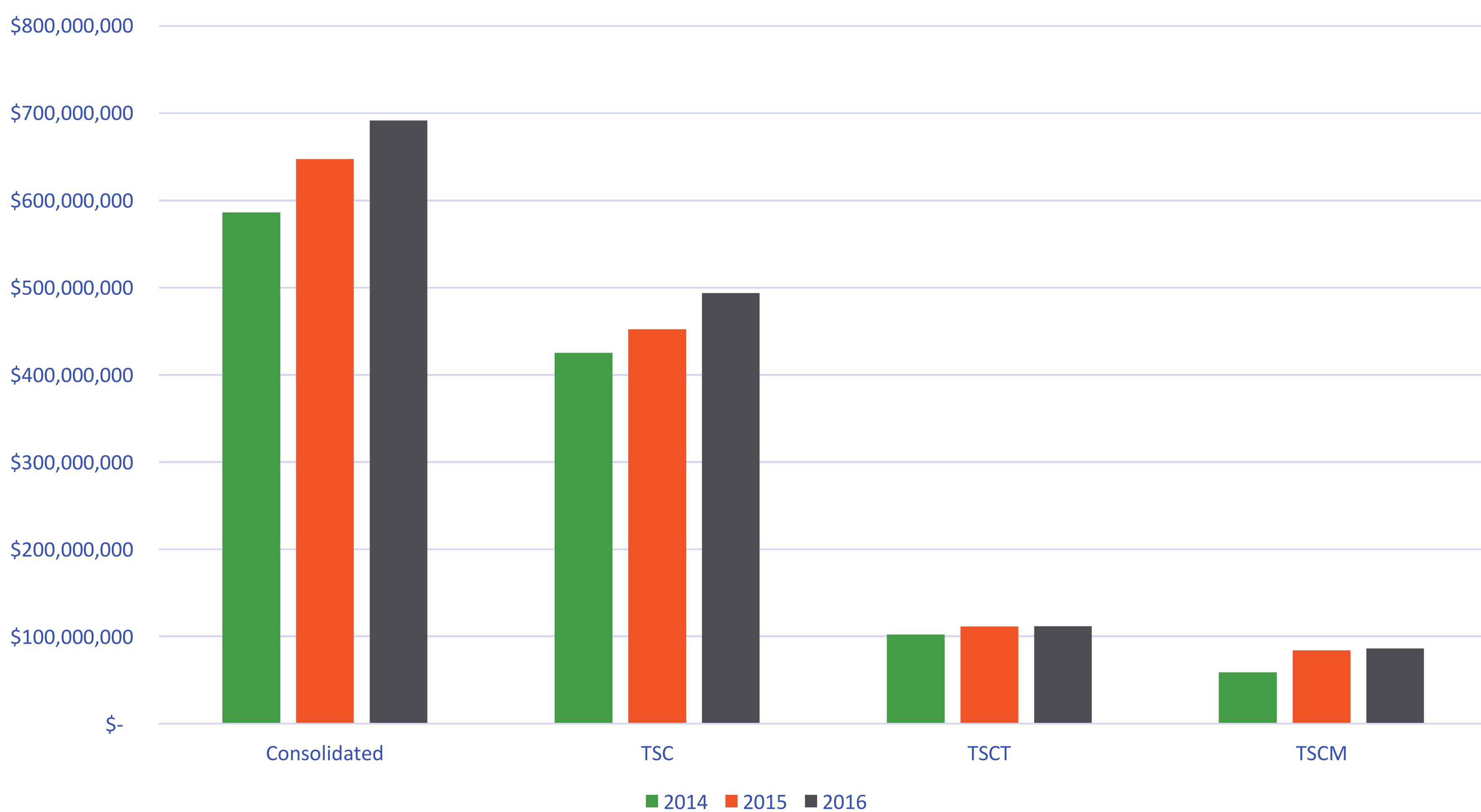
# Intercompany Transaction 3: TSCT transfer pricing markup for purchasing function




Source: Joint Exhibit 27 at TSC_00006655

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

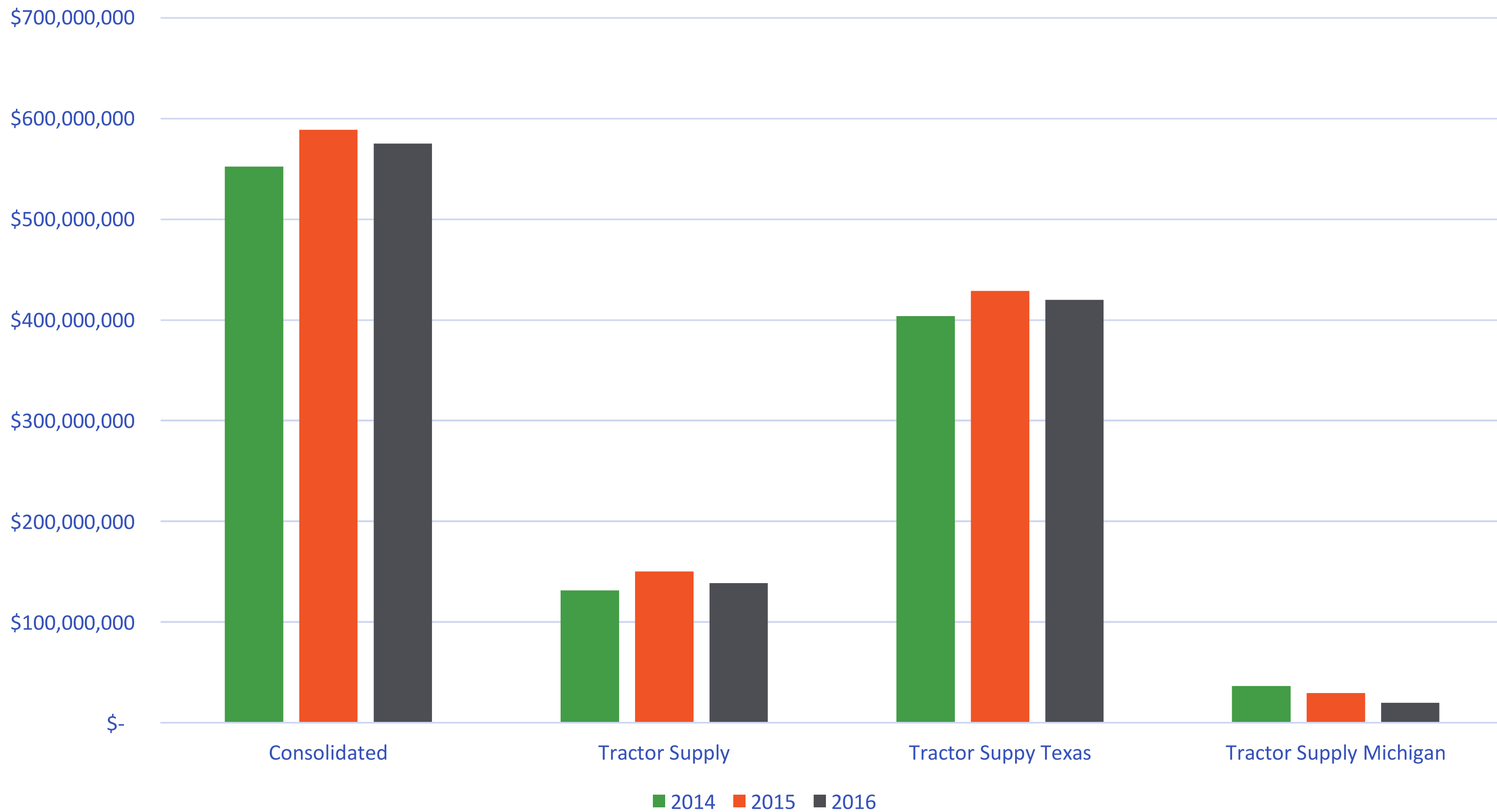
# Tractor Supply allocation of income before transfer pricing




Source: Joint Exhibit 30 at TSC_00004558, TSC_00004559, and TSC_00004560

ROA_004568

# Tractor Supply taxable income, by entity, per Federal 1120s




Source: Joint Exhibit 5 at TSC_00001604 and 1667
Joint Exhibit 6 at TSC_00001756 and 1819
Joint Exhibit 7 at TSC_00001908 and 1978

ROA_004569

# Share of taxable income in TSC, TSC Texas, and TSC Michigan

| | 2014 | 2015 | 2016 | Audit Period |
|---|---|---|---|---|
| TSC | 23.0% | 24.6% | 24.0% | 23.9% |
| TSC Texas | 70.6% | 70.5% | 72.6% | 71.3% |
| TSC Michigan | 6.4% | 4.8% | 3.4% | 4.9% |

Source: Joint Exhibit 5 at TSC_00001667
Joint Exhibit 6 at TSC_00001819
Joint Exhibit 7 at TSC_00001978

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# TSCT operating profits from retail sales vs. inventory markup for procurement function (transfer pricing)


Source: Joint Exhibit 37 at TSC_00006655, 6656

ROA_004571

# Retail sales for Tractor Supply's South Carolina stores


Source: Joint Exhibit 8 at TSC_0000047
Joint Exhibit 9 at TSC_0000067
Joint Exhibit 10 at TSC_0000093

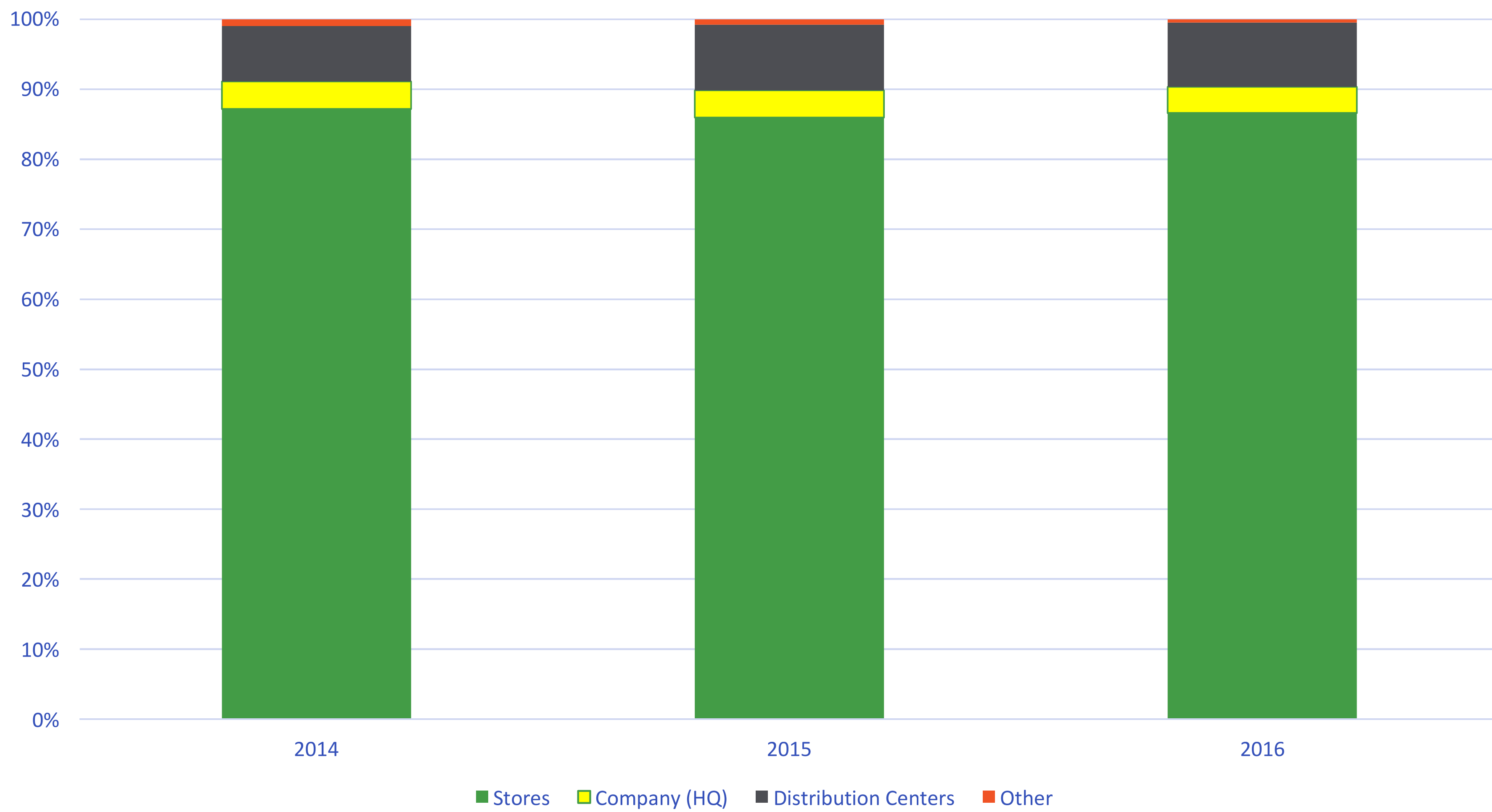
# TSC taxable income apportioned to South Carolina

| | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|
| Tractor Supply SC 1120, line 1: Federal | 130,998,512 | 149,722,788 | 138,467,788 | 419,189,088 |
| Tractor Supply SC 1120, Line 6: Income apportioned to South Carolina | 4,137,310 | 4,356,694 | 5,008,670 | 13,502,674 |

Source: Joint Exhibit 8 at TSC_0000044
Joint Exhibit 9 at TSC_0000064
Joint Exhibit 10 at TSC_0000090

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Location of Tractor Supply's employees




Source: Joint Exhibit 50 at TSC_00006065, TSC_00006066, and TSC_00006067

As of December 31, 2016, Tractor Supply had 13,000 part-time and 13,000 full-time employees (Source: Joint Exhibit 3, 2016 10-K, p. 4)

ROA_004574

# Tractor Supply HQ employees, by legal entity (2016)

| Pay Group - Job Dta | Store Name | Total |
|---|---|---|
| Parent-TSC ('TSX') | 4090 Del's Merchandising | 3 |
| | 496 Transportation | 12 |
| | 6031 Distribution & Logistics | 8 |
| | 800 Store Operations | 20 |
| | 895 Field Recruiting | 9 |
| | 896 Store Operations - Help De | 9 |
| | 897 Customer Solutions Center | 65 |
| | 898 Field HR Business Partners | 13 |
| | 899 Internal Audit | 12 |
| | 900 Executive | 10 |
| | 902 Marketing | 37 |
| | 903 IT Ops & Shared Services | 41 |
| | 904 IT Corp Sys-Actg RE HR IT | 16 |
| | 905 Store Systems & Mobility | 17 |
| | 909 General Accounting | 17 |
| | 910 Accounts Payable | 28 |
| | 911 Inventory Control | 12 |
| | 912 Tax Department | 10 |
| | 914 Payroll & Compliance | 7 |
| | 915 Accounting Leadership | 5 |
| | 916 Finance & Risk Management | 6 |
| | 917 Hr Admin & Technology | 17 |
| | 918 Benefits | 18 |
| | 919 Training And Education | 5 |
| | 921 Loss Prevention | 22 |
| | 922 Store Set Up | 7 |
| | 923 Legal | 13 |
| | 928 Planning | 22 |
| | 930 Office Services | 8 |
| | 932 E-Commerce | 9 |
| | 933 Merchandise Presentation | 36 |
| | 934 It E-Comm Cust Fac Mob OMS | 27 |
| | 935 It Leadership | 7 |
| | 936 IT Infrastructure Eng | 14 |
| | 938 Tvs | 4 |
| | 941 DC HR Business Partners | 2 |
| | 942 Supply Chain Planning | 13 |
| | 944 Project Delivery & Gov | 6 |
| | 947 Investor Relations | 2 |
| | 948 Purchasing | 6 |
| | 954 Pricing | 11 |
| | 956 SSC HR Business Partners | 4 |
| | 957 SSC Recruiting | 5 |
| | 961 Info Security & DR | 16 |
| | 962 IT Supply Chain | 9 |
| | 963 IT Merch Mktg BI & Int | 21 |
| | 965 IT Data Integration | 23 |
| | 966 IT EA & Platform Eng | 17 |
| | 967 IT Quality Assurance | 15 |
| | 970 Licensing | 7 |
| | 988 Real Estate | 39 |
| **Parent-TSC ('TSX') Total** | | **762** |

| | | |
|---|---|---|
| TSC Texas ('TSY') | 901 Merchandising | 50 |
| | 913 Master Data | 13 |
| | 924 Supply Chain Management | 10 |
| | 950 Product Development | 8 |
| | 952 Inventory Mgmt | 32 |
| | 953 Merchandise Planning | 7 |
| | 955 Merchandise Multi Channel | 8 |
| **TSC Texas ('TSY') Total** | | **128** |
| **Grand Total** | | **890** |

Source: Joint Exhibit 53 atTSC_00006134, “Summary”

ROA_004575

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# TSC executives

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

Source: Joint Exhibit 2, 2015 10-K at p.7

# 2014 PwC Memo description of functions for TSCT

TSC functions as a nationwide retailer, focused on the niche market of recreational farmers, ranchers, and those who enjoy a rural lifestyle. TSC operates approximately 1,276 stores in 48 states, and is headquartered in Brentwood, Tennessee. TSC Michigan, a wholly owned TSC subsidiary, owns and operates 72 retail stores in the state of Michigan. TSC Texas, a wholly owned subsidiary of TSC, performs various procurement, merchandising, and distribution activities on behalf of all TSC and TSC Michigan retail stores (collectively referred to as, "the TSC Retailers"). TSC Texas purchases the majority of its products from independent third parties for distribution and sale to the TSC Retailers. TSC Texas also functions as a retailer, owning and operating 138 stores in the state of Texas. Additionally, TSC Texas has certain private label goods manufactured by third parties on its behalf for sale to the TSC Retailers. TSC Texas also owns and develops certain trademarks, trade names, and brand names/logos (collectively, "the Marks"), which the TSC Retailers have the right to use.[2]

Source: Joint Exhibit 19 at TSC_00004277

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Cargo insurance contract for imported inventory

AON — Preferred Marine Cargo Panel — Allianz

| MARINE CARGO AND WAR RISK INSURANCE DECLARATION PAGE | |
|---|---|
| **ASSURED:** | Tractor Supply Company<br>200 Powell Place, Brentwood, Tennessee, 37027 |
| **ATTACHMENT DATE:** | Effective 4/1/2015 and continuous until cancelled |
| **POLICY NUMBER:** | OC 91178100 |
| **GOODS INSURED:** | 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. |
| **GEOGRAPHIC SCOPE:** | 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. |
| **VALUATION:** | Goods &/or merchandise insured under this policy shall be valued at:<br>Finished goods at selling price if sold; else, CIF +10%. |

| | | |
|---|---|---|
| **UNDERWRITING INFORMATION:** | **Sales Exposure(s):** | |
| | Total Gross Sales: | $5,664,933,619 |

Source:  SCDOR Exhibit 10 at TSC_00001124-1126

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

ROA_004578

# Vendor payment records

| Run On | **Paying CC** | Vendor | Crcy | Name 1 | Name 2 | City | Amnt paid in LC | Cash discount (LC) |
|---|---|---|---|---|---|---|---|---|
| 1/2/2014 | **TSC** | 500331 | USD | GLOBAL HARVEST FOODS LTD | | AKRON | $ (10,018.40) | $ (101.20) |
| 1/2/2014 | **TSC** | 500558 | USD | AMERICAN COLLOID COMPANY SD | | BELLE FOURCHE | $ (4,027.80) | $ (82.20) |
| 1/2/2014 | **TSC** | 500560 | USD | AMERICAN COLLOID COMPANY PA | | YORK | $ (21,324.12) | $ (435.18) |
| 1/2/2014 | **TSC** | 500610 | USD | GLOBAL HARVEST HARROLD SD | | HARROLD | $ (50,451.37) | $ (509.63) |
| 1/2/2014 | **TSC** | 500731 | USD | KAL KAN INC MATTOON | MASTERFOODS USA | MATTOON | $ (18,013.26) | $ (367.62) |
| 1/2/2014 | **TSC** | 500764 | USD | MARS PETCARE WEST JEFF | | WEST JEFFERSON | $ (54,549.85) | $ (1,113.26) |
| 1/2/2014 | **TSC** | 500790 | USD | MARS PETCARE US CALIFORNIA | FORMERLY DOANE PET CARE CO | TRACY | $ (13,292.38) | $ (271.28) |
| 1/2/2014 | **TSC** | 501026 | USD | CARGILL MENTONE | | MENTONE | $ (8,804.42) | $ (179.68) |
| 1/2/2014 | **TSC** | 501028 | USD | CARGILL MONTGOMERY | | MONTGOMERY | $ (33,304.32) | $ (679.68) |
| 1/2/2014 | **TSC** | 501035 | USD | CARGILL GIDDINGS | | GIDDINGS | $ (18,872.45) | $ (385.15) |
| 1/2/2014 | **TSC** | 501087 | USD | CARGILL MINEOLA | | MINEOLA | $ (10,598.90) | $ (216.30) |
| 1/2/2014 | **TSC** | 501127 | USD | CALLAWAY FARMS MANUFACTURING LLC | | WASHINGTON | $ (3,648.64) | $ (36.86) |
| 1/2/2014 | **TSC** | 501150 | USD | CARGILL GIDDINGS | | GIDDINGS | $ (42,226.66) | $ (861.76) |
| 1/2/2014 | **TSC** | 501151 | USD | CARGILL ALEXANDRIA | | ALEXANDRIA | $ (63,528.22) | $ (1,296.48) |
| 1/2/2014 | **TSC** | 501152 | USD | CARGILL OK CITY | | OKLAHOMA CITY | $ (96,887.77) | $ (1,977.30) |
| 1/2/2014 | **TSC** | 501153 | USD | CARGILL SEGUIN | | SEGUIN | $ (240,445.94) | $ (4,907.04) |
| 1/2/2014 | **TSC** | 501163 | USD | GLOBAL HARVEST FOODS LTD PA | | ALLENTOWN | $ (92,651.88) | $ (935.86) |
| 1/2/2014 | **TSC** | 501233 | USD | CARGILL BYHALIA | | BYHALIA | $ (21,158.83) | $ (431.81) |
| 1/2/2014 | **TSC** | 501244 | USD | RED HAWKE FARMS LLC | | HAHIRA | $ (1,312.51) | $ (19.99) |
| 1/2/2014 | **TSC** | 510006 | USD | NATIONAL HARDWARE CO | | STERLING | $ (22,925.08) | $ (467.86) |
| 1/2/2014 | **TSC** | 510048 | USD | ALLIED PRECISION INDUSTRIES INC | | DEKALB | $ (1,003.01) | $ (20.47) |
| 1/2/2014 | **TSC** | 510187 | USD | NORTH AMERICAN SALT SE | IMC | MANSFIELD | $ (768.32) | $ (15.68) |
| 1/2/2014 | **TSC** | 510190 | USD | NORTH AMERICAN SALT NE | IMC | HERSEY | $ (46,788.26) | $ (954.87) |
| 1/2/2014 | **TSC** | 510192 | USD | NORTH AMERICAN SALT | LYONS PLANT | LYONS | $ (16,876.22) | $ (344.43) |
| 1/2/2014 | **TSC** | 510286 | USD | DEE ZEE MFG | | DES MOINES | $ (57,081.02) | $ (576.58) |
| 1/2/2014 | **TSC** | 510836 | USD | EXIDE TECHNOLOGIES | | MILTON | $ (89,221.46) | $ (901.17) |
| 1/2/2014 | **TSC** | 510875 | USD | CHS SUNFLOWER | | GRANDIN | $ (35,061.46) | $ (715.54) |

Source: Joint Exhibit 49 at TSC_00004463

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

ROA_004579

# Trial balances (excerpt): 2015

| GL Account | GL Account Description | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|---|
| 50100 | 50100 Gross Sales | -5,294,947,228.08 | -879,935,738.10 | -366,913,187.56 | 0.00 | -6,541,796,153.74 |
| 50102 | 50102 Pet Services | -178,745.44 | 0.00 | 0.00 | 0.00 | -178,745.44 |
| 50106 | 50106 Shipping & Handling Revenue | -1,866,188.06 | 0.00 | 0.00 | 0.00 | -1,866,188.06 |
| 50110 | 50110 Warranty Cost | 8,948,624.64 | 1,907,650.62 | 591,168.50 | 0.00 | 11,447,443.76 |
| 50300 | 50300 Intercompany Sales | 0.00 | -3,928,457,779.55 | 0.00 | 3,928,457,779.55 | 0.00 |
| 50500 | 50500 Sales Refunds | 244,557,103.96 | 40,570,940.67 | 20,057,423.36 | 0.00 | 305,185,467.99 |
| 50510 | 50510 Sales Return Reserve | 586,577.54 | 0.00 | 0.00 | 0.00 | 586,577.54 |
| 50590 | 50590 Sales Refunds-Other | 114,962.83 | 0.00 | 0.00 | 0.00 | 114,962.83 |
| 51000 | 51000 Cost of Sales | 3,164,757,295.63 | 533,363,289.80 | 221,156,414.29 | 0.00 | 3,919,276,999.72 |
| 51500 | 51500 Cost of Sales - SCO | 9,508,369.41 | 1,549,357.06 | 1,083,834.82 | 0.00 | 12,141,561.29 |
| 51600 | 51600 Intercompany Cost of Sales | 306,795,064.92 | 3,581,091,868.31 | 21,559,373.08 | -3,909,446,306.31 | 0.00 |
| 51700 | 51700 Warranty Cost Reclass | -8,948,624.64 | -1,907,650.62 | -591,168.50 | 0.00 | -11,447,443.76 |
| 51800 | 51800 Sales Return Reserve Reclass | -389,002.60 | 0.00 | 0.00 | 0.00 | -389,002.60 |
| 51900 | 51900 Other Direct Cost of Merchandise | 2,960.00 | 0.00 | 40.00 | 0.00 | 3,000.00 |
| … | | | | | | |
| 14100 | 14100 Inventory | 997,947,780.36 | 140,624,483.56 | 59,907,339.00 | 0.00 | 1,198,479,602.92 |
| 14850 | 14850 InterCo Markup on Inventory | 82,631,184.67 | 0.00 | 6,544,114.04 | -89,175,298.71 | 0.00 |

Source: TSC_00004560, “2015”

ROA_004580

# Trial balances (excerpt): 2015 (cont.)

| GL Account | GL Account Description | Parent (TSC) | TX | MI | ELIM | Total |
|---|---|---|---|---|---|---|
| 30100 | 30100 Accounts Payable - Trade | -190,700,587.50 | -40,613,114.77 | -3,917,202.82 | 0.00 | -235,230,905.09 |
| … | | | | | | |
| 53100 | 53100 Discounts Earned | -19,153,034.55 | -3,240,460.01 | -1,343,514.67 | 0.00 | -23,737,009.23 |
| 53150 | 53150 New Store Discounts | -16,322,080.52 | -2,701,769.74 | -554,337.82 | 0.00 | -19,578,188.08 |
| … | | | | | | |
| 55000 | 55000 Freight on Goods Sold | 267,804,931.13 | 45,178,149.28 | 18,759,769.98 | 0.00 | 331,742,850.39 |
| 55200 | 55200 Freight on Imports | 44,522,369.12 | 0.00 | 0.00 | 0.00 | 44,522,369.12 |
| 55201 | 55201 Import Duties | 21,098,660.85 | 0.00 | 0.00 | 0.00 | 21,098,660.85 |
| 55202 | 55202 Import Quality Assurance | 0.00 | 1,199,694.39 | 0.00 | 0.00 | 1,199,694.39 |
| 55203 | 55203 Import Dray | 6,849,735.42 | 0.00 | 0.00 | 0.00 | 6,849,735.42 |
| 55204 | 55204 Import Storage | 243,182.37 | 0.00 | 0.00 | 0.00 | 243,182.37 |
| 55205 | 55205 Import Consolidation | 840,992.16 | 0.00 | 0.00 | 0.00 | 840,992.16 |
| 55206 | 55206 Buying Agency Fees - Imports | 0.00 | 8,220,450.01 | 0.00 | 0.00 | 8,220,450.01 |
| 55207 | 55207 Vendor Credit - Freight & Fees | -1,379,715.15 | 0.00 | 0.00 | 0.00 | -1,379,715.15 |
| 55225 | 55225 Special Order Freight | -443,111.64 | 0.00 | 0.00 | 0.00 | -443,111.64 |
| 55250 | 55250 Regular Freight on Invoice | 923,099.07 | 0.00 | 0.00 | 0.00 | 923,099.07 |
| 55525 | 55525 Small Package Freight | 6,617,757.92 | 0.00 | 0.00 | 0.00 | 6,617,757.92 |
| 55570 | 55570 Air Freight | 5,279.05 | 0.00 | 0.00 | 0.00 | 5,279.05 |
| … | | | | | | |
| 57100 | 57100 Volume Rebates | -20,699,095.28 | -3,480,489.17 | -1,445,041.97 | 0.00 | -25,624,626.42 |
| 57200 | 57200 Vendor Markdowns/Other Rebates | -31,149,653.08 | -5,187,442.79 | -2,138,475.52 | 0.00 | -38,475,571.39 |
| 57201 | 57201 Price Cut Programs | -18,368,515.91 | -2,869,260.39 | -1,228,218.23 | 0.00 | -22,465,994.53 |
| 57300 | 57300 Vendor Support | -78,062,319.05 | -13,156,787.45 | -5,464,921.31 | 0.00 | -96,684,027.81 |

Source: Joint Exhibit 30 at TSC_00004559, “2015”

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# PwC distribution comparable search

**Table 1: SIC codes searched in CPM analysis**

| SIC codes | Description |
|---|---|
| 5013 | Motor vehicle supplies and new parts, wholesale dealing |
| 5014 | Tires and tubes, wholesale dealing |
| 5015 | Motor vehicle parts used, wholesale dealing |
| 5063 | Electrical apparatus and equipment wiring supplies |
| 5064 | Electrical appliances, television, and radio sets |
| 5065 | Electrical parts and equipment, not elsewhere classified |
| 5072 | Hardware |
| 5083 | Farm equipment and supplies |
| 5084 | Industrial equipment, wholesale dealing |
| 5085 | Industrial supplies, wholesale dealing |
| 5099 | Durable goods, not elsewhere classified |
| 513* | Apparel, piece goods, and notions, wholesale dealing |
| 5149 | Groceries and related products, not elsewhere classified |
| 5159 | Farm-product raw materials, not elsewhere classified |
| 5191 | Farm supplies |
| 5199 | Non-durable goods, not elsewhere classified |

Source: Joint Exhibit 19 at TSC_00004281

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# PwC distribution comparables

**Table 2: Accepted similar companies**

| | |
|---|---|
| Anixter International, Inc. | Lawson Products, Inc. |
| Applied Industrial Technologies, Inc. | MSC Industrial Direct Co., Inc. |
| Grainger (W W), Inc. | Universal Power Group, Inc. |
| Houston Wire & Cable Co. | WESCO International, Inc. |

Source: Joint Exhibit 19 at TSC_00004282

# PwC distribution comparables (excerpts)

Anixter International Inc., together with its subsidiaries, distributes enterprise cabling and security solutions, electrical and electronic wire and cable products, original equipment manufacturer (OEM) supply fasteners, and other small parts. The company operates in Enterprise Cabling and Security Solutions; Electrical and Electronic Wire and Cable; and OEM Supply segments. Its Enterprise Cabling

Applied Industrial Technologies, Inc. distributes industrial products for maintenance, repair, and operational needs, as well as original equipment manufacturing applications primarily in the United States, Canada, Australia, New Zealand, Mexico, and Puerto Rico. The company offers bearings, power transmission components, fluid power components and systems, industrial rubber products, linear motion components, tools, safety products, and other industrial supplies; and fluid power products, such as hydraulic, pneumatic, lubrication, and filtration components and systems. It also operates fabricated rubber shops, which modify and repair conveyor belts and make hose assemblies; and rubber service field crews to install and repair belts and rubber linings at customer locations. In addition, the company assembles fluid power systems and components; performs equipment repair; offers technical advice to customers; and provides maintenance training, and inventory and storeroom management solutions. It

W.W. Grainger, Inc. operates as a distributor of maintenance, repair, and operating (MRO) supplies; and other related products and services that are used by businesses and institutions in the United States and Canada. The company provides material handling equipment, safety and security supplies, lighting and electrical products, power and hand tools, pumps and plumbing supplies, cleaning and maintenance supplies, building and home inspection supplies, and vehicle and fleet components. It also offers inventory management and energy efficiency solutions; various industrial and safety supplies; tools,

Source: Joint Exhibit 19 at TSC_00004298 and 4299

# PwC distribution comparables (excerpts, cont.)

Houston Wire & Cable Company, through its subsidiaries, sells wire and cable, hardware, and related services in the United States. It offers wire and cable products, including continuous and interlocked armor cables; control and power cables; electronic wires and cables; flexible and portable cords; instrumentation and thermocouple cables; lead and high temperature cables; medium voltage cables; and premise and category wires and cables, primary and secondary aluminum distribution cables, and wire ropes and wire rope slings, as well as nylon slings, chains, shackles, and other related hardware. The company also provides private branded products comprising its proprietary brand LifeGuard, a low-smoke zero-halogen cable. Its products are used in maintenance, repair, and operations activities, and related projects; larger-scale projects in the utility, industrial, and infrastructure markets; and a range of industrial applications, such as communications, energy, engineering and construction, general

Lawson Products, Inc. distributes products and services to the industrial, commercial, institutional, and governmental maintenance, repair, and operations (MRO) marketplace. Its MRO products comprise fastening systems, specialty chemicals, fluid power, cutting tools and abrasives, electrical, aftermarket automotive supplies, safety, welding and metal repair, and other products. The company serves customers in the automotive repair, commercial vehicle maintenance, government, manufacturing, food processing, distribution, construction, oil and gas, mining, wholesale, service, and other industries. It sells its

MSC Industrial Direct Co., Inc., together with its subsidiaries, markets and distributes metalworking, and maintenance, repair, and operations (MRO) supplies primarily in the United States. Its MRO products include cutting tools, measuring instruments, tooling components, metalworking products, fasteners, flat

Source: Joint Exhibit 19 at TSC_00004299

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# PwC distribution comparables (excerpts, cont.)

Universal Power Group, Inc. sells, distributes, and markets batteries, related power accessories, low voltage wire and cable products, and security accessories. The company distributes sealed lead-acid batteries; and assembles lithium-ion and other custom battery packs. Its principal product lines include batteries and custom battery packs of various chemistries, battery chargers, and related accessories; portable battery-powered products, such as jump starters; security system components, including alarm panels, perimeter access controls, horns, sirens, speakers, transformers, cables, and wires; and renewable power products comprising solar power generators and solar products to original equipment manufacturers, distributors, and online and traditional retailers. The company markets products under

WESCO International, Inc. distributes electrical, industrial, and communications maintenance, repair, and operating (MRO) products; and original equipment manufacturers products and construction materials in North America and internationally. It also provides supply chain management and logistics services. The company offers general and industrial supplies, such as wiring devices, fuses, terminals, connectors, boxes, enclosures, fittings, lugs, terminations, tapes, splicing and marking equipment, tools and testers, safety and security, personal protection, abrasives, cutting tools, consumables, fasteners, janitorial, and other MRO supplies. It also provides wires, cables, raceway, and metallic and non-metallic

Source: Joint Exhibit 19 at TSC_00004300

# PwC distribution comparables results

**Table 3: Weighted-average MOTC results for the similar wholesale distribution companies**

| | Three-year wtd. avg. | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Upper quartile | 11.9% | 16.4% | 11.9% | 12.0% |
| Median | 7.0% | 6.6% | 6.9% | 7.1% |
| Lower quartile | 3.8% | 6.1% | 3.9% | 3.6% |

Source: Joint Exhibit 19 at TSC_00004302

# PwC calculation of TSCT's inventory markup

[13] TSC Texas' total costs attributable to its procurement, merchandising, and distribution activities reflect the sum of the following expenses: (i) TSC Texas' intercompany cost of sales, (ii) TSC Texas' purchasing cost center, and (iii) total WACO expenses.

| | |
|---|---|
| **TSC Texas's costs (excluding retail operations and products sold to TSC Michigan)[13]** | $2,803,040,409 |
| | |
| **MOTC** | |
| Upper quartile | 11.9% |
| Median | 7.0% |
| Lower quartile | 3.8% |
| | |
| **Transfer price** | |
| Upper quartile | $332,989,968 |
| Median | $195,527,180 |
| Lower quartile | $107,353,896 |
| | |
| **Inventory sold to TSC – 2013** | $2,778,325,045 |
| | |
| **Markup on inventory** | |
| Upper quartile | 12.0% |
| Median | 7.0% |
| Lower quartile | 3.9% |

Source: Joint Exhibit 19 at TSC_00004291

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# Markup on Total Costs for PwC distribution comparables

| Company | FY2014 | FY2015 | FY2016 | Total |
|---|---|---|---|---|
| Anixter International Inc. | 6.1% | 5.2% | 4.3% | 5.1% |
| Applied Industrial Technologies, Inc. | 7.0% | 7.2% | 7.1% | 7.1% |
| W.W. Grainger, Inc. | 16.5% | 15.6% | 13.7% | 15.2% |
| Houston Wire & Cable Company | 14.3% | 11.6% | 7.4% | 11.5% |
| Lawson Products, Inc. | -0.6% | 1.7% | 0.6% | 0.5% |
| MSC Industrial Direct Co., Inc. | 16.8% | 15.2% | 15.1% | 15.7% |
| Universal Power Group, Inc. | 2.0% | 1.6% | 0.4% | 1.3% |
| WESCO International, Inc. | 6.3% | 5.2% | 4.7% | 5.4% |
| **25th Percentile** | **4.1%** | **3.5%** | **2.4%** | **3.2%** |
| **Median** | **6.6%** | **6.2%** | **5.9%** | **6.3%** |
| **75th Percentile** | **15.4%** | **13.4%** | **10.5%** | **13.4%** |

| | | | | |
|---|---|---|---|---|
| **TSC Texas overall operations (incl. retail)** | **11.3%** | **10.5%** | **9.9%** | **10.5%** |

Source: Joint Exhibit 48 (SCDOR_006807)
Joint Exhibit 19 at TSC_00004282
Joint Exhibit 5 at TSC_00001667-1672
Joint Exhibit 6 at TSC_00001819-1823
Joint Exhibit 7 at TSC_00001978-1982

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# Return on Assets for PwC distribution comparables

| Company | FY2014 | FY2015 | FY2016 | Total |
|---|---|---|---|---|
| Anixter International Inc. | 10.5% | 8.4% | 8.0% | 8.9% |
| Applied Industrial Technologies, Inc. | 17.7% | 16.7% | 14.9% | 16.3% |
| W.W. Grainger, Inc. | 32.1% | 28.5% | 24.9% | 28.4% |
| Houston Wire & Cable Company | 25.8% | 18.9% | 11.0% | 18.9% |
| Lawson Products, Inc. | -1.2% | 4.0% | 1.4% | 1.2% |
| MSC Industrial Direct Co., Inc. | 21.3% | 19.7% | 19.3% | 20.1% |
| Universal Power Group, Inc. | 4.3% | 3.1% | 0.6% | 2.6% |
| WESCO International, Inc. | 10.5% | 8.5% | 7.7% | 8.9% |
| **25th Percentile** | **7.4%** | **6.2%** | **4.5%** | **5.7%** |
| **Median** | **14.1%** | **12.6%** | **9.5%** | **12.6%** |
| **75th Percentile** | **23.5%** | **19.3%** | **17.1%** | **19.5%** |

| | | | | |
|---|---|---|---|---|
| **TSC Texas overall operations (incl. retail)** | **199.2%** | **164.8%** | **142.9%** | **165.3%** |

Source: Joint Exhibit 48 (SCDOR_006807)
Joint Exhibit 19 at TSC_00004282
Joint Exhibit 5 at TSC_00001667-1672
Joint Exhibit 6 at TSC_00001819-1823
Joint Exhibit 7 at TSC_00001978-1982

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# Berry Ratio for PwC distribution comparables

| Company | FY2014 | FY2015 | FY2016 | Total |
|---|---|---|---|---|
| Anixter International Inc. | 1.06 | 1.05 | 1.04 | 1.05 |
| Applied Industrial Technologies, Inc. | 1.07 | 1.07 | 1.07 | 1.07 |
| W.W. Grainger, Inc. | 1.16 | 1.16 | 1.14 | 1.15 |
| Houston Wire & Cable Company | 1.14 | 1.12 | 1.07 | 1.11 |
| Lawson Products, Inc. | 0.99 | 1.02 | 1.01 | 1.01 |
| MSC Industrial Direct Co., Inc. | 1.17 | 1.15 | 1.15 | 1.16 |
| Universal Power Group, Inc. | 1.02 | 1.02 | 1.00 | 1.01 |
| WESCO International, Inc. | 1.06 | 1.05 | 1.05 | 1.05 |
| **25th Percentile** | **1.04** | **1.03** | **1.02** | **1.03** |
| **Median** | **1.07** | **1.06** | **1.06** | **1.06** |
| **75th Percentile** | **1.15** | **1.13** | **1.11** | **1.13** |

| | | | | |
|---|---|---|---|---|
| **TSC Texas overall operations (incl. retail)** | **4.10** | **3.67** | **3.21** | **3.60** |

Source: Joint Exhibit 48 (SCDOR_006807)
Joint Exhibit 19 at TSC_00004282
Joint Exhibit 5 at TSC_00001667-1672
Joint Exhibit 6 at TSC_00001819-1823
Joint Exhibit 7 at TSC_00001978-1982

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# Markup on Total Costs for alternative set of wholesale distribution comparables

| Company | FY2014 | FY2015 | FY2016 | Total |
|---|---|---|---|---|
| AMCON Distributing Company | 1.1% | 1.3% | 1.2% | 1.2% |
| AmerisourceBergen Corporation | 0.7% | 0.6% | 1.0% | 0.8% |
| Anixter International Inc. | 6.1% | 5.2% | 4.3% | 5.1% |
| Arrow Electronics, Inc. | 4.0% | 4.0% | 4.1% | 4.0% |
| Avnet, Inc. | 3.3% | 4.1% | 3.8% | 3.7% |
| Beacon Roofing Supply, Inc. | 4.4% | 5.2% | 6.0% | 5.4% |
| BlueLinx Holdings Inc. | 0.4% | 0.9% | 0.7% | 0.7% |
| CCOM Group, Inc. | 1.5% | 1.1% | 1.6% | 1.4% |
| Colabor Group Inc. | 0.8% | 0.8% | 1.4% | 1.0% |
| Core-Mark Holding Company, Inc. | 0.6% | 1.0% | 0.7% | 0.8% |
| Empire Resources, Inc. | 2.2% | 1.6% | 1.8% | 1.9% |
| Essendant Inc. | 3.5% | 3.7% | 2.6% | 3.2% |
| Foundation Building Materials, Inc. | 2.7% | 4.6% | 3.7% | 3.8% |
| Genuine Parts Company | 7.9% | 7.9% | 7.6% | 7.8% |
| GMS Inc. | 1.6% | 3.3% | 4.8% | 3.4% |
| Graybar Electric Company, Inc. | 2.6% | 2.5% | 2.3% | 2.5% |
| Houston Wire & Cable Company | 14.3% | 11.6% | 7.4% | 11.5% |
| Huttig Building Products, Inc. | 1.2% | 2.1% | 3.3% | 2.2% |
| Ingram Micro Inc. | 1.3% | 1.5% | 1.2% | 1.3% |
| NOW Inc. | 4.6% | -3.7% | -9.5% | -1.7% |

Source: Joint Exhibit 47 (SCDOR_006809)

SOUTH CAROLINA DOR DEPARTMENT OF REVENUE

# Markup on Total Costs for alternative set of wholesale distribution comparables (cont.)

| Company | FY2014 | FY2015 | FY2016 | Total |
|---|---|---|---|---|
| Pool Corporation | 9.2% | 10.1% | 11.1% | 10.1% |
| Surge Components, Inc. | 2.7% | 3.8% | -1.6% | 1.6% |
| Sysco Corporation | 3.9% | 3.8% | 4.2% | 4.0% |
| TD SYNNEX Corporation | 2.6% | 2.8% | 2.9% | 2.8% |
| The Chefs' Warehouse, Inc. | 3.7% | 4.0% | 4.1% | 4.0% |
| The Hillman Companies, Inc. | 9.3% | 4.1% | 5.2% | 6.1% |
| Tiger Parent (AP) Corporation | 1.0% | 1.1% | 1.3% | 1.2% |
| Uni-Select Inc. | 13.9% | 14.8% | 17.1% | 15.0% |
| United Natural Foods, Inc. | 3.2% | 3.1% | 2.8% | 3.0% |
| US Foods Holding Corp. | 1.0% | 1.8% | 2.2% | 1.7% |
| Veritiv Corporation | 1.0% | 1.6% | 1.5% | 1.3% |
| Watsco, Inc. | 8.4% | 8.8% | 8.9% | 8.7% |
| **25th Percentile** | **1.1%** | **1.4%** | **1.3%** | **1.3%** |
| **Median** | **2.7%** | **3.2%** | **2.8%** | **2.9%** |
| **75th Percentile** | **4.5%** | **4.4%** | **4.5%** | **4.6%** |

| | | | | |
|---|---|---|---|---|
| **TSC Texas overall operations (incl. retail)** | **11.3%** | **10.5%** | **9.9%** | **10.5%** |

Source: Joint Exhibit 47 (SCDOR_006809)
Joint Exhibit 19 at TSC_00004282
Joint Exhibit 5 at TSC_00001667-1672
Joint Exhibit 6 at TSC_00001819-1823
Joint Exhibit 7 at TSC_00001978-1982

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# Return on Assets for alternative set of wholesale distribution comparables

| Company | FY2014 | FY2015 | FY2016 | Audit Period |
|---|---|---|---|---|
| AMCON Distributing Company | 9.0% | 10.4% | 9.5% | 9.7% |
| AmerisourceBergen Corporation | 4.7% | 3.6% | 5.6% | 4.7% |
| Anixter International Inc. | 10.5% | 8.4% | 8.0% | 8.9% |
| Arrow Electronics, Inc. | 7.7% | 7.4% | 7.2% | 7.4% |
| Avnet, Inc. | 9.3% | 7.2% | 6.8% | 7.8% |
| Beacon Roofing Supply, Inc. | 7.5% | 8.7% | 10.2% | 9.1% |
| BlueLinx Holdings Inc. | 1.6% | 3.2% | 2.9% | 2.6% |
| CCOM Group, Inc. | 4.8% | 3.6% | 5.5% | 4.6% |
| Colabor Group Inc. | 2.4% | 2.8% | 5.4% | 3.4% |
| Core-Mark Holding Company, Inc. | 6.3% | 9.8% | 6.9% | 7.6% |
| Empire Resources, Inc. | 4.9% | 3.1% | 3.7% | 3.9% |
| Essendant Inc. | 8.8% | 9.1% | 6.7% | 8.2% |
| Foundation Building Materials, Inc. | | 7.1% | 5.0% | 6.6% |
| Genuine Parts Company | 16.8% | 16.4% | 15.2% | 16.1% |
| GMS Inc. | 2.3% | 5.1% | 8.2% | 5.4% |
| Graybar Electric Company, Inc. | 9.8% | 8.8% | 8.0% | 8.9% |
| Houston Wire & Cable Company | 25.8% | 18.9% | 11.0% | 18.9% |
| Huttig Building Products, Inc. | 5.7% | 11.1% | 16.3% | 11.2% |
| Ingram Micro Inc. | 5.4% | 5.4% | 4.2% | 5.0% |
| NOW Inc. | 8.3% | -5.7% | -13.8% | -2.7% |

Source: Joint Exhibit 47 (SCDOR_006809)

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# Return on Assets for alternative set of wholesale distribution comparables (cont.)

| Company | FY2014 | FY2015 | FY2016 | Audit Period |
|---|---|---|---|---|
| Pool Corporation | 22.9% | 24.8% | 27.9% | 25.3% |
| Surge Components, Inc. | 9.5% | 15.1% | -6.1% | 5.9% |
| Sysco Corporation | 14.5% | 14.6% | 16.4% | 15.2% |
| TD SYNNEX Corporation | 9.4% | 8.7% | 9.1% | 9.1% |
| The Chefs' Warehouse, Inc. | 9.4% | 9.1% | 8.3% | 8.8% |
| The Hillman Companies, Inc. | 4.2% | 1.7% | 2.3% | 2.6% |
| Tiger Parent (AP) Corporation | 4.7% | 5.3% | 5.6% | 5.2% |
| Uni-Select Inc. | 19.3% | 20.2% | 23.6% | 20.8% |
| United Natural Foods, Inc. | 11.2% | 10.7% | 9.0% | 10.2% |
| US Foods Holding Corp. | 2.6% | 5.0% | 5.7% | 4.4% |
| Veritiv Corporation | 4.3% | 6.3% | 5.6% | 5.5% |
| Watsco, Inc. | 18.0% | 19.1% | 19.5% | 18.9% |
| **25th Percentile** | **4.7%** | **5.1%** | **5.4%** | **4.8%** |
| **Median** | **8.3%** | **8.6%** | **7.1%** | **7.7%** |
| **75th Percentile** | **10.5%** | **10.9%** | **9.9%** | **9.9%** |

| | | | | |
|---|---|---|---|---|
| **TSC Texas overall operations (incl. retail)** | **199.2%** | **164.8%** | **142.9%** | **165.3%** |

Source: Joint Exhibit 47 (SCDOR_006809)
Joint Exhibit 19 at TSC_00004282
Joint Exhibit 5 at TSC_00001667-1672
Joint Exhibit 6 at TSC_00001819-1823
Joint Exhibit 7 at TSC_00001978-1982

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# PwC retail comparable search

**Table 4: SIC codes searched in CPM analysis**

| SIC codes | Description |
|---|---|
| 5083 | Farm and garden machinery and equipment |
| 507* | Hardware, and plumbing and heating equipment and supplies |
| 5099 | Durable goods, not elsewhere classified |
| 521* | Lumber and other building materials dealers |
| 523* | Paint, glass, and wallpaper stores |
| 525* | Hardware stores |
| 526* | Retail nurseries, lawn and garden supply stores |
| 53* | General merchandise stores |
| 541* | Grocery stores |
| 55* | Automotive dealers and gasoline service stations |
| 56* | Apparel and accessory stores |
| 571* | Home furniture and furnishings stores |
| 572* | Household appliances stores |

Source: Joint Exhibit 19 at TSC_00004286

# PwC retail comparable quantitative screens

The quantitative screening process involved comparing significant financial ratios of the potential similar companies against those of the tested party, and eliminating those companies whose ratios deviated too greatly. To be used as a screening criterion, a financial ratio must be a meaningful indicator of the functions performed, risks incurred, or assets employed by the company. The use of quantitative screens reduces the amount of subjectivity in the selection process, reduces the impact of comparability adjustments to financial results, and makes it possible to review a large number of potential similar companies relatively efficiently. The quantitative screens rejected companies according to the following measures:

- Companies with less than two years of financial data over the three-year period 2011-2013; and
- Companies with revenues greater than $1 billion for 2013.

Source: Joint Exhibit 19 at TSC_00004287

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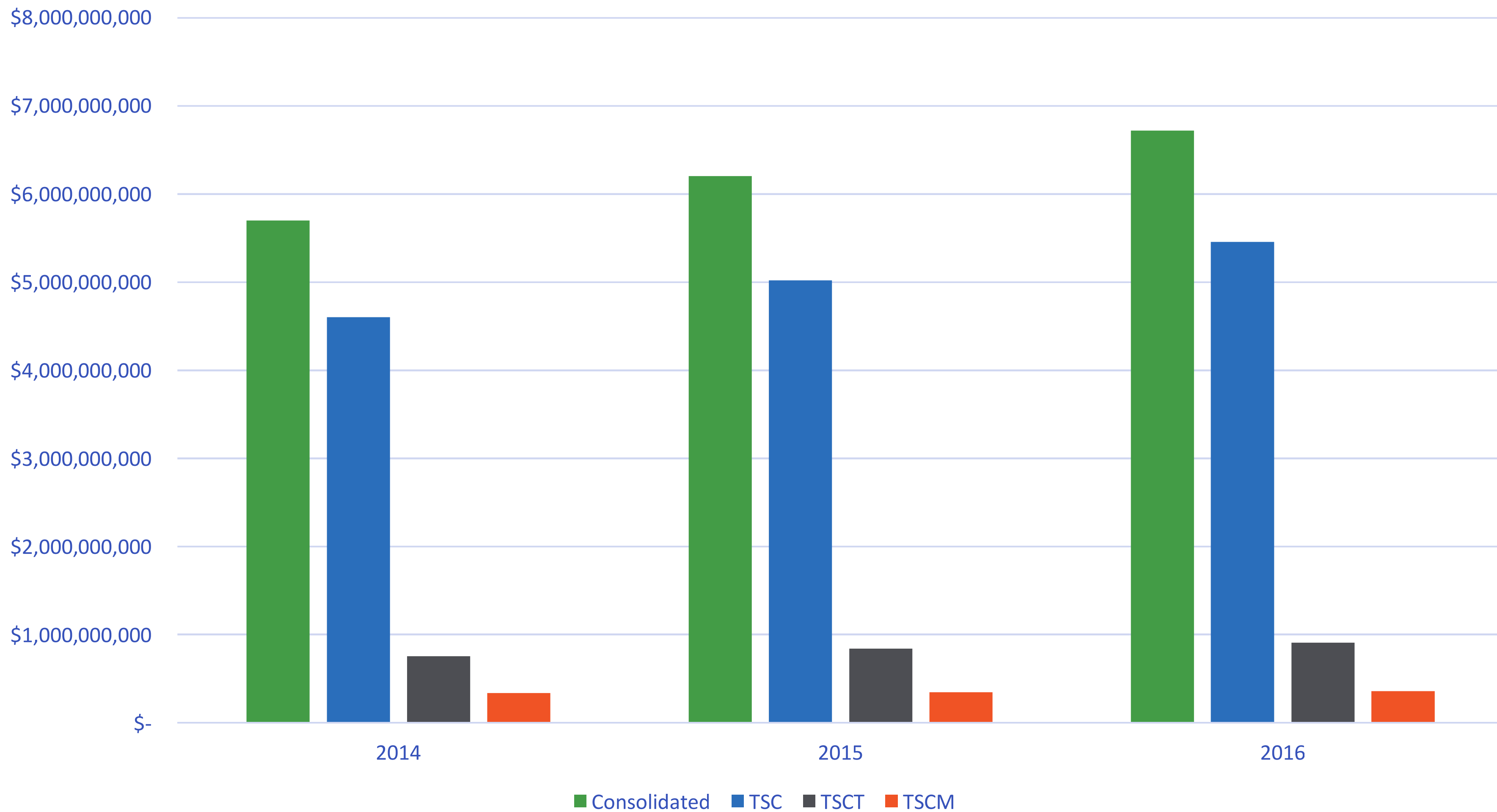
# PwC retail comparable discussion

Whereas, the TSC Retailers' activities only span one component of TSC's overall value chain (i.e., core retailing activities), independent brick-and-mortar retailers span all three components of TSC's value chain (i.e., procurement/distribution, merchandising, core retailing, and brand value). These independent retailers: (i) perform core retailing activities, (ii) is responsible for procurement, merchandising, and distribution activities, and (iii) may own certain brand intangibles. Additionally, as these independent retailers' operations grow in size and scope, they are able to benefit from economies of scale which result in greater group purchasing power and leverage over their suppliers. While larger retailers are able to benefit from this increased leverage, smaller retailers are not.

Therefore, in attempting to screen out those brick-and-mortar retailers with larger retail operations that may be able to leverage the size of their operations to gain increased purchasing power from its suppliers (and therefore earn higher returns), this benchmarking analysis applied a quantitative screen to identify those retailers with revenues below $1 billion. By analyzing the returns earned by smaller brick-and-mortar retailers, this more closely approximates the return earned for core retail operations that benefit less from increased purchasing power derived from economies of scale. This benchmarking analysis is detailed below.

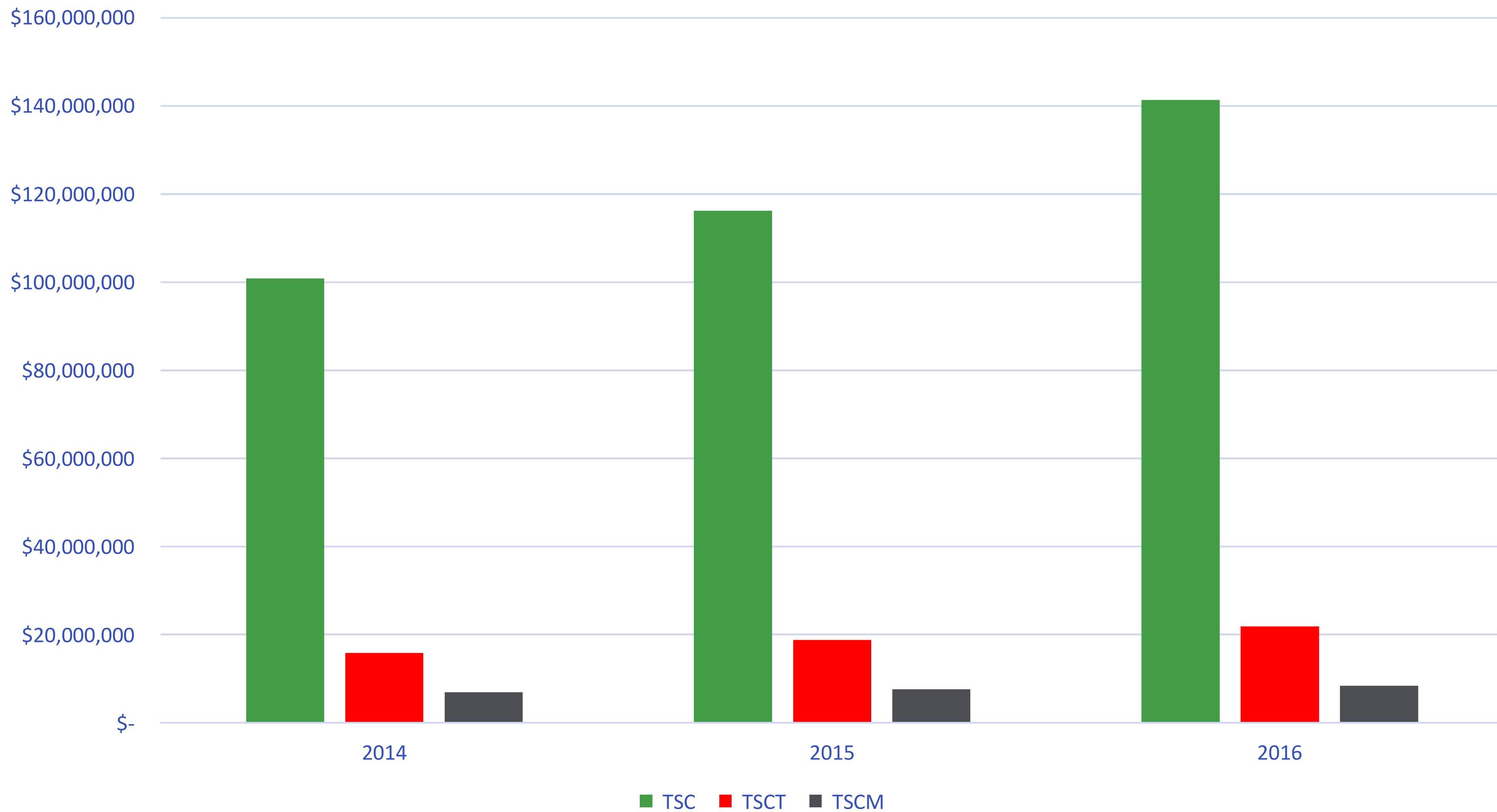
Source: Joint Exhibit 19 at TSC_00004285

# Retail sales for TSC (Consolidated),TSC, TSCT, and TSCM




Source: Joint Exhibit 51 at TSC_00006116

# Tractor Supply vendor rebates and volume discounts




Source: Joint Exhibit 30 at TSC_00004558, TSC_00004559, and TSC_00004560

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# PwC retail comparables and results

**Table 5: Accepted similar companies**

| | |
|---|---|
| Alco Stores, Inc. | Kirkland's, Inc. |
| Body Central Corp. | MarineMax, Inc. |
| Citi Trends, Inc. | Shoe Carnival, Inc. |
| Five Below, Inc. | Tilly's, Inc. |
| Francescas Holdings Corp. | Tuesday Morning Corp. |
| Gordmans Stores, Inc. | West Marine, Inc. |
| Hancock Fabrics, Inc. | |

**Table 6: Weighted-average (2011–2013) ROS results for the similar retailers**

| | Three-year wtd. avg. | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Upper quartile | 5.6% | 6.0% | 6.3% | 8.7% |
| Median | 3.2% | 2.4% | 4.8% | 5.5% |
| Lower quartile | 0.5% | 1.1% | 1.0% | 0.9% |

Source: Joint Exhibit 19 at TSC_00004288 and 4289

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ROA_004601

# PwC trademark licensing comparables search

## *Search for similar license agreements*

### *Search methodology and criteria*

Using TP CUT, PwC searched for a set of similar trade name/trademark license agreements in the U.S. Specifically, the search identified agreements that:

- Estimated and analyzed data;[15]
- Were classified as a Trademark agreement;
- Were classified as agreements that paid royalties based on either "Net Sales" or "Gross Sales"; and
- Were captured under the SIC codes listed in Table 9.

**Table 9: SIC codes searched in CUT Method analysis**

| SIC codes | Description |
|---|---|
| 50* | Wholesale trade – durable goods. |

Source: Joint Exhibit 19 at TSC_00004318

# PwC trademark licensing comparables results

**Table 11: Royalty rates of accepted similar license agreements**

| Licensor/owner | Licensee/agent | Royalty base | Average royalty |
|---|---|---|---|
| Episode USA, Inc. | Mothers Work, Inc. | Sales | 5.0% |
| Sears Roebuck and Co./Sears Canada, Inc. | CPI Corp. | Sales | 8.7% |
| Snap! LLC | ValueVision International, Inc. | Sales | 2.0% |
| Cherokee, Inc. | Target Corp. | Sales | 1.1% |
| ESH Strategies Branding LLC | LVP Acquisitions Corp. | Sales | 0.2% |
| | | | |
| Maximum | | | 8.7% |
| Upper Quartile | | | 5.0% |
| Median | | | 2.0% |
| Lower Quartile | | | 1.1% |
| Minimum | | | 0.2% |

Source: Joint Exhibit 19 at TSC_00004319

SOUTH CAROLINA DEPARTMENT OF REVENUE

# Markup on Total Costs for Global Trading and Purchasing Companies

| Company | FY2014 | FY2015 | FY2016 | Total |
|---|---|---|---|---|
| DL Holdings Group Limited | 14.5% | 14.7% | 17.4% | 15.7% |
| Global Brands Group Holding Limited | 3.1% | 3.3% | 2.1% | 2.8% |
| Hang Pin Living Technology Company Limited | -0.1% | -10.6% | -12.9% | -5.0% |
| Li & Fung Limited | 2.7% | 2.4% | 1.9% | 2.4% |
| Narbada Gems and Jewelry Limited | 7.0% | 12.6% | 8.8% | 9.2% |
| Sfund International Holdings Limited | -1.6% | -1.9% | -1.1% | -1.6% |
| State Energy Group International Assets Holdings Limited | 0.3% | -5.7% | -6.9% | -3.1% |
| **25th Percentile** | **-0.1%** | **-5.7%** | **-6.9%** | **-3.1%** |
| **Median** | **2.7%** | **2.4%** | **1.9%** | **2.4%** |
| **75th Percentile** | **7.0%** | **12.6%** | **8.8%** | **9.2%** |

| | | | | |
|---|---|---|---|---|
| **TSC Texas overall operations (incl. retail)** | **11.3%** | **10.5%** | **9.9%** | **10.5%** |

Source: Joint Exhibit 45 (SCDOR_6808)
Joint Exhibit 19 at TSC_00004282
Joint Exhibit 5 at TSC_00001667-1672
Joint Exhibit 6 at TSC_00001819-1823
Joint Exhibit 7 at TSC_00001978-1982

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ROA_004604

# Return on Assets for Global Trading and Purchasing Companies

| Company | FY2014 | FY2015 | FY2016 | Total |
|---|---|---|---|---|
| DL Holdings Group Limited | 65.0% | 119.3% | 89.3% | 134.3% |
| Global Brands Group Holding Limited | 2.3% | 2.3% | 1.6% | 2.0% |
| Hang Pin Living Technology Company Limited | -0.1% | -21.8% | -26.1% | -6.8% |
| Li & Fung Limited | 5.4% | 5.9% | 4.0% | 5.1% |
| Narbada Gems and Jewelry Limited | 35.3% | 32.5% | 20.7% | 28.8% |
| Sfund International Holdings Limited | -4.7% | -6.8% | -4.0% | -5.1% |
| State Energy Group International Assets Holdings Limited | 1.9% | -21.0% | -26.2% | -13.8% |
| **$25^{th}$ Percentile** | **-0.1%** | **-21.0%** | **-26.1%** | **-6.8%** |
| **Median** | **2.3%** | **2.3%** | **1.6%** | **2.0%** |
| **$75^{th}$ Percentile** | **35.3%** | **32.5%** | **20.7%** | **28.8%** |

| | | | | |
|---|---|---|---|---|
| **TSC Texas overall operations (incl. retail)** | **199.2%** | **164.8%** | **142.9%** | **165.3%** |

Source: Joint Exhibit 45 (SCDOR_6808)
Joint Exhibit 19 at TSC_00004282
Joint Exhibit 5 at TSC_00001667-1672
Joint Exhibit 6 at TSC_00001819-1823
Joint Exhibit 7 at TSC_00001978-1982

SOUTH CAROLINA DEPARTMENT OF REVENUE

# Excerpt from §482

"Consistent with the specified methods, an unspecified method should take into account the **general principle that uncontrolled taxpayers evaluate the terms of a transaction by considering the realistic alternatives to that transaction**, including economically similar transactions structured as other than services transactions, and **only enter into a particular transaction if none of the alternatives is preferable to it**."

Treas. Reg. §1.482-9(h) Methods to determine taxable income in connection with a controlled services transaction

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SC Court of Appeals

THE STATE OF SOUTH CAROLINA
In The Court of Appeals

APPEAL FROM THE ADMINISTRATIVE LAW COURT

Ralph King Anderson, III, Chief Administrative Law Judge

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

Tractor Supply Company,............................................... Appellant,

v.

South Carolina Department of Revenue, .......................... Respondent.

## CERTIFICATE OF COUNSEL

The undersigned certifies that the Record on Appeal contains all material proposed to be included by the parties and not any other material.

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November 4, 2024