

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 28, 2019

or

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

For the transition period from _____ to _____.

Commission file number 000-23314



TRACTOR SUPPLY COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

13-3139732

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

5401 Virginia Way, Brentwood, Tennessee

(Address of Principal Executive Offices)

37027

(Zip Code)

Registrant's Telephone Number, Including Area Code:

(615) 440-4000

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

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

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

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing price of the Common Stock on The NASDAQ Global Select Market on June 29, 2019, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$10.8 billion. For purposes of this response, the registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of its Common Stock are affiliates of the registrant.

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

<u>Class</u>	<u>Outstanding at January 25, 2020</u>
Common Stock, \$.008 par value	117,282,010

Documents Incorporated by Reference:

Portions of the Registrant's definitive Proxy Statement for its 2020 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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FORWARD-LOOKING STATEMENTS OR INFORMATION

This Form 10-K and statements included or incorporated by reference in this Form 10-K include certain historical and forward-looking information. The forward-looking statements included are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the “Act”). All statements, other than statements of historical facts, which address activities, events or developments that we expect or anticipate will or may occur in the future, including such things as future capital expenditures (including their amount and nature), business strategy, expansion and growth of the business operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, we are identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written. These factors include, without limitation, national, regional and local economic conditions affecting consumer spending, weather conditions, the seasonal nature of the business, the timing and acceptance of new products in the stores, the timing and mix of goods sold, purchase price volatility (including inflationary and deflationary pressures), the ability to increase sales at existing stores, the failure to realize anticipated benefits of our investments in technology, infrastructure, and digital and omni-channel capabilities, the ability to manage growth and identify suitable locations, failure of an acquisition to produce anticipated results, the ability to successfully manage expenses and execute key gross margin enhancing initiatives, increases in fuel, carrier and other transportation costs, increases in wages due to competitive pressures or minimum wage laws and regulations, the availability of favorable credit sources, capital market conditions in general, the ability to open new stores in the manner and number currently contemplated, the impact of new stores on the business, competition, including competition from online retailers, effective merchandising and marketing initiatives, the ability to retain vendors, reliance on foreign suppliers, the ability to attract, train and retain qualified employees, product liability and other claims, changes in federal, state or local regulations, potential judgments, fines, legal fees and other costs, breach of information systems or theft of employee or customer data, ongoing and potential future legal or regulatory proceedings, management of the Company’s information systems, failure to develop and implement new technologies, the failure of customer-facing technology systems, business disruption resulting from a natural or other disaster or implementation of new technologies, including but not limited to, new supply chain technologies, effective tax rate changes, including expected effects of the Tax Cuts and Jobs Act, and results of examination by taxing authorities, the imposition of tariffs on imported products or the disallowance of tax deductions on imported products, the ability to maintain an effective system of internal control over financial reporting, changes in accounting standards, assumptions and estimates, and those described in Item 1A. “Risk Factors.” Forward-looking statements are based on currently available information and are based on our current expectations and projections about future events. We undertake no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

Item 1. Business

Overview

Tractor Supply Company (the “Company” or “we” or “our” or “us”) is the largest rural lifestyle retailer in the United States (“U.S.”). The Company is focused on supplying the needs of recreational farmers, ranchers, and all those who enjoy living the rural lifestyle (which we refer to as the “*Out Here*” lifestyle), as well as tradesmen and small businesses. We operate retail stores under the names *Tractor Supply Company*, *Del’s Feed & Farm Supply*, and *Petsense* and operate websites under the names *TractorSupply.com* and *Petsense.com*. Our stores are located primarily in towns outlying major metropolitan markets and in rural communities.

The Company has one reportable industry segment which is the retail sale of products that support the rural lifestyle. At December 28, 2019, we operated 2,024 retail stores in 49 states (1,844 Tractor Supply and Del’s retail stores and 180 Petsense retail stores). Our Tractor Supply stores typically range in size from 15,000 to 20,000 square feet of inside selling space, along with additional outside selling space, and our Petsense stores have approximately 5,500 square feet of inside selling space. For Tractor Supply retail locations, we use a standard design for most new built-to-suit locations that includes approximately 15,500 square feet of inside selling space. Our online selling websites are positioned to offer an extended assortment of products beyond those offered in-store and drive traffic into our stores through our buy online and pickup in-store and ship to store programs.

Business Strategy

We believe our sales and earnings growth is the result of executing our business strategy, which includes the following key components:

Market Niche

We have identified a specialized market niche: supplying the lifestyle needs of recreational farmers, ranchers, and all those who enjoy living the rural lifestyle, as well as tradesmen and small businesses. By focusing our product assortment on these core customers, we believe we are differentiated from general merchandise, home center, and other specialty retailers. We cater to the rural lifestyle and often serve a market by being a trip consolidator for many basic maintenance needs for farm, ranch, and rural customers through convenient shopping options both in-store and online.

Customers

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

Customer Service

We are committed to providing our customers reliable product availability and a convenient, customer-centric experience across shopping channels. In our stores, we believe the ability of our motivated, well-trained team members to provide friendly, responsive and seasoned advice helps our customers find the right products to satisfy their everyday needs, as well as the specialty items needed to complete their rural lifestyle projects. We also engage with our customers through our e-commerce website (*TractorSupply.com*), which provides the opportunity to allow customers to shop at anytime, anywhere, and in any way they choose, while delivering enhanced product information, research, and decision tools that support product selection and informational needs in specific subject areas. Additionally, we maintain a Customer Solutions Center at our Store Support Center located in Brentwood, Tennessee, to support our in-store and online customers, as well as our store team members. We believe this commitment to customer service promotes strong customer loyalty through personalized experiences and provides convenience that our customers expect, which drives repeat shopping experiences.

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

Store Personnel and Training

We seek to hire store team members who live and appreciate the "Out Here" lifestyle, including those 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;
- Productive workplace environment training that is intended to educate team members on company policies and procedures covering topics such as harassment, discrimination, and retaliation;
- New store opening training that prepares our store managers to open new stores to Company standards;
- A management training program which covers all aspects of our store operations, delivering superior service, and managing the team member experience;
- Structured training on customer service and selling skills;
- Online product knowledge training produced in conjunction with key vendors;
- Leadership development programs that prepare leaders to expand their current contributions; and
- An annual store manager meeting with vendor product presentations.

Store Environment

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

Merchandising and Purchasing

We offer an extensive assortment of products for all those seeking to enjoy the "Out Here" lifestyle, as well as tradesmen and small businesses. Our product assortment is tailored to meet the needs of our customers in various geographic markets. Our full line of product offerings includes a broad selection of high quality, reputable brand name and exclusive brand products and is supported by a strong in-stock inventory position with approximately 15,500 to 20,000 products per store as well as over 125,000 products online. No single product accounted for more than 10% of our sales during fiscal 2019. Our comprehensive selection of merchandise is comprised of the following major product categories:

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

The following table indicates the percentage of net sales represented by each of our major product categories during fiscal 2019, 2018, and 2017:

Product Category:	Percent of Net Sales		
	Fiscal Year		
	2019	2018	2017
Livestock and Pet	47 %	47 %	47 %
Hardware, Tools and Truck	21	22	22
Seasonal, Gift and Toy Products	20	19	19
Clothing and Footwear	8	8	8
Agriculture	4	4	4
Total	100 %	100 %	100 %

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

Our products are sourced through both domestic and international vendors, each of whom adhere to a code of conduct that guides our relationship. Our business is not dependent upon any single vendor or particular group of vendors. We purchase our products from a group of approximately 975 vendors, with no one vendor representing more than 10% of our purchases during fiscal 2019. Approximately 375 core vendors accounted for 90% of our merchandise purchases during fiscal 2019. We have not experienced any significant difficulty in obtaining satisfactory alternative sources of supply for our products, and we believe that adequate sources of supply exist at substantially similar costs for nearly all of our products. We have no material long-term contractual commitments with any of our product vendors.

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

Intellectual Property

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

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

Our exclusive brands represented approximately 31% of our total sales in fiscal 2019 and 2018, respectively, and 32% of our total sales in fiscal 2017. Our exclusive brands include:

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

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

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

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

Distribution

We currently operate a distribution facility network for supplying stores with merchandise and delivering product ordered through *TractorSupply.com*. In fiscal 2019, our Tractor Supply stores received approximately 74% of merchandise through this network while the remaining merchandise shipped directly from our vendors to our stores or customers. We believe this flow facilitates the prompt and efficient distribution of merchandise in order to enhance in-stock inventory positions, minimize freight expense, and improve the inventory turn rate. Our distribution facilities, located in Arizona, Georgia, Indiana, Kentucky, Maryland, Nebraska, New York, Texas, and Washington represent a total distribution capacity of 6.1 million square feet. We also use third-party operated import centers and mixing centers which provide additional distribution capacity. In fiscal 2019, we completed and began shipping operations at our new northeast distribution center in Frankfort, New York.

We select the locations of our distribution facilities in an effort to minimize logistical costs and optimize the distance from distribution facilities to our stores. Our distribution centers utilize warehouse and labor management tools that support the planning, control, and processing of inventory. We manage our inbound and outbound transportation activity in-house through the use of a transportation management system. We utilize multiple common carriers for store and direct to customer deliveries. We manage our transportation costs through carrier negotiations, monitoring of transportation routes, and scheduling of deliveries.

Marketing

We utilize an “everyday value price” philosophy to consistently offer our products at competitive prices complemented by strategically planned promotions throughout the year. To drive store traffic and position ourselves as a destination retailer, we promote a broad selection of merchandise through various digital and social media initiatives, newspaper circulars, customer targeted direct mail, and direct e-mail, as well as limited television, radio, and other limited media channels. In addition, our *Neighbor's Club* loyalty program enhances our ability to create engagement with our best customers. Vendors frequently support these specific programs by offering temporary cost reductions and honoring coupons. Our vendors also provide assistance with product presentation and fixture design, brochures, support for in-store events, point-of-purchase materials for customer education, and product knowledge for our team members.

Omni-Channel

The customer is our singular focus and our priority is ensuring they can engage with us in the most convenient manner for them whether in our stores, on our website, or via our Customer Solutions Center. Our goal is to be available anytime, anywhere, and in any way our customers choose to engage with our brand. We provide our customers the opportunity to shop in a manner that fits their lifestyle and is most convenient for them. Our focus is on delivering a comprehensive mobile experience while maintaining a straight-forward shopping experience to further offer the convenience our customers need. We offer a buy online and pick up in-store program which provides convenient access for customers to pick up merchandise from our store locations. Additionally, our online experience offers an expansive product assortment including a direct to consumer assortment extending our aisles beyond our store locations as well as convenient and useful content that is relevant to their lifestyle. We provide our customers the ability to have products shipped directly to our retail store locations or to their homes or offices. We use our distribution facility network to support our e-commerce activities. Our digital capabilities have further enhanced our in-store shopping and customer service experience, allowed us to engage with our customers anytime, anywhere, and in any way they choose, and expanded our target markets outside of our current retail store locations.

Management and Team Members

As of December 28, 2019, we employed approximately 16,000 full-time and 16,000 part-time Tractor Supply team members. We typically employ additional part-time team members throughout the year during high sales volume periods. We are not party to any collective bargaining agreements.

Our store operations are organized into regions, each of which is led by a regional vice president. The region is further organized into districts, each of which is led by a district manager. We have two internal advisory boards, one comprised of store managers and the other comprised of district managers. These groups bring a grassroots perspective to operational initiatives and generate chain-wide endorsement of proposed best-practice solutions.

All of our team members participate in one of our various bonus incentive programs, which provide the opportunity to receive additional compensation based upon team and/or Company performance. In addition to bonus incentive programs, we provide our eligible team members the opportunity to participate in an employee stock purchase plan and a 401(k) retirement savings plan. We also share in the cost of health insurance provided to eligible team members, and team members receive a discount on merchandise purchased from the Company.

We encourage a promote-from-within environment when internal resources permit. We also provide internal leadership development programs designed to prepare our high-potential team members for greater responsibility. Our current team of district managers and store managers have an average tenure of approximately nine and six years, respectively. We believe internal promotions, coupled with the hiring of individuals with previous retail experience, will provide the management structure necessary to support our long-term strategic growth initiatives.

Continuous Improvement

We are committed to a continuous improvement program to drive change throughout our organization. Using data analytics and team member engagement, we examine business processes and identify opportunities to reduce costs, drive innovation, and improve effectiveness. We have implemented numerous continuous improvement projects, with team members from multiple areas of our business, to evaluate key operations and implement process change. Team members are empowered and expected to challenge current paradigms and improve processes. Management encourages the participation of all team members in the decision-making process, regularly solicits input and suggestions from our team members, and incorporates suggestions into our improvement activities.

Management Information and Control Systems

We have invested resources in management information and control systems to provide legendary customer service and to deliver the right products in the right place at the right time. This includes use of digital technologies to integrate the customer experience in-store, online, and through our Customer Solutions Center, which offers customers the ability to shop anytime, anywhere, and in any way they choose. Our key platforms include:

- Point-of-sale system;
- In-store mobility;
- E-commerce platform;

- Replenishment and allocation systems;
- Merchandising presentation and inventory management tools;
- Warehouse and transportation management systems;
- Labor management tools for stores and supply chain;
- Price optimization system;
- Vendor purchase order control system;
- Business intelligence and analytics tools; and
- Customer loyalty system.

These systems are integrated through an enterprise resource planning (“ERP”) system. This ERP system tracks merchandise from initial order through ultimate sale and interfaces with our financial systems.

We continue to invest in technology to support store, online, and distribution facility expansion and our long-term strategic growth initiatives focused heavily on improving the customer experience across all channels. We also continue to evaluate and improve the functionality of our systems to maximize their effectiveness. Such efforts include ongoing hardware and software evaluations, refreshes, and upgrades to support optimal software configurations, and application performance. We plan to continue to invest in information technology and implement efficiency-driving system enhancements. We will continue to evaluate the use of technologies to improve productivity such as artificial intelligence, automation software, quantum computing, and other technologies. We also maintain and continue to strengthen the security of our information systems to help protect and prevent unauthorized access to personal information of our customers, employees, vendors, and other confidential Company data as well as ensuring that we adhere to industry privacy laws and standards. Collectively, these efforts are directed toward improving business processes, maintaining secure, efficient, and stable systems, and enabling the continued growth and success of our business.

Petsense

Petsense is a small-box pet specialty supply retailer focused on meeting the needs of pet owners, primarily in small and mid-sized communities, and offering a variety of pet products and services. At December 28, 2019, we operated a total of 180 Petsense stores in 26 states, with approximately 500 full-time and 1,000 part-time team members, and an e-commerce website (Petsense.com). Petsense owns a registration trademark for its exclusive brand, *TrueSource*[®] pet food, and the Petsense name is registered with the USPTO.

Growth Strategy

Tractor Supply Company believes we can grow our business by being the most dependable supplier of relevant products and services for the “*Out Here*” lifestyle, creating customer loyalty through personalized experiences, and providing convenience that our customers expect at anytime, anywhere, and in any way they choose. Our long-term growth strategy is to: (1) drive profitable growth through new store openings and by expanding omni-channel capabilities, thus tying together our website product content, social media, digital, and online shopping experience, attracting new customers and driving loyalty, (2) build customer-centric engagement by leveraging analytics to deliver legendary customer service, seasoned advice, and personalized experiences, (3) offer relevant assortments and services across all channels through exclusive and national brands and continue to introduce new products and services through our test and learn strategy, (4) enhance our core and foundational capabilities by investing in infrastructure and process improvements which will support growth, scale, and agility while improving the customer experience, and (5) expand through selective acquisitions, as such opportunities arise, to add complementary businesses and to enhance penetration into new and existing markets to supplement organic growth.

Achieving this strategy will require a foundational focus on: (1) organizing, optimizing, and empowering our team members for growth by developing skills, talent, and leadership across the organization, and (2) implementing operational efficiency initiatives, including leverage of technology and automation, to align our cost structure to support new business capabilities for margin improvement and cost reductions.

Over the past five years, we have experienced considerable sales growth, resulting in a compounded annual growth rate of approximately 7.9%. We plan to open approximately 80 new Tractor Supply and 10 to 15 new Petsense stores in fiscal 2020, a selling square footage increase of approximately 4.5%. In fiscal 2019, we opened 80 new Tractor Supply stores and 8 new Petsense stores. In fiscal 2018, we opened 80 new Tractor Supply stores and 18 new Petsense stores. This represents a selling square footage increase of approximately 4.3% during fiscal 2019 and 4.9% during fiscal 2018.

At December 28, 2019, we operated 2,024 retail stores in 49 states (1,844 Tractor Supply and Del's retail stores and 180 Petsense retail stores). Given the size of the communities that we target, we believe that there is ample opportunity for new store growth in many existing and new markets. We have developed a proven method for selecting store sites and have identified over 600 additional markets for new Tractor Supply stores. We also believe that there is opportunity for up to 1,000 Petsense stores. Approximately 55% of our stores are in freestanding buildings and 45% are located in strip shopping centers. We lease approximately 94% of our stores and own the remaining 6%.

Competition

We operate in a competitive retail industry. The principal competitive factors include location of stores, fulfillment options, price, quality of merchandise, in-stock inventory consistency, merchandise assortment and presentation, product knowledge, online competitors, and customer service. We compete with general merchandise retailers, home center retailers, pet retailers, specialty and discount retailers, independently owned retail farm and ranch stores, numerous privately-held regional farm store chains and farm cooperatives, as well as internet-based retailers. However, we believe we successfully differentiate ourselves from many of these retailers by focusing on our specialized market niche for customers living the rural lifestyle. See further discussion of competition in 1A. "Risk Factors" of this Annual Report on Form 10-K.

Seasonality and Weather

Our business is seasonal. Historically, our sales and profits are the highest in the second and fourth fiscal quarters due to the sale of seasonal products. We experience our highest inventory and accounts payable balances during our first fiscal quarter for purchases of seasonal products to support the higher sales volume of the spring selling season, and again during our third fiscal quarter to support the higher sales volume of the cold-weather selling season. We believe that our business can be more accurately assessed by focusing on the performance of the halves, not the quarters, due to the fact that different weather patterns from year-to-year can shift the timing of sales and profits between quarters, particularly between the first and second fiscal quarters and the third and fourth fiscal quarters.

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

Stewardship and Compliance with Environmental Matters

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

In December 2018, we announced a goal to reduce carbon emissions from our facilities by 25% by 2025 from our 2015 baseline as part of the Company's Stewardship Program.

Additional information can be found in our annual sustainability report on our website.

Information about our Executive Officers

Pursuant to General Instruction G(3) of Form 10-K, the following list is included in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 7, 2020.

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

Name	Position	Age
Harry A. Lawton, III	President and Chief Executive Officer	45
Kurt D. Barton	Executive Vice President – Chief Financial Officer and Treasurer	48
Benjamin F. Parrish, Jr.	Executive Vice President – General Counsel and Corporate Secretary	63
Robert D. Mills	Executive Vice President – Chief Technology, Digital Commerce and Strategy Officer	47
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Harry A. Lawton, III was appointed as President and Chief Executive Officer on January 13, 2020. Mr. Lawton served as President of Macy's, Inc. from September 2017 to December 2019. Prior to that time, Mr. Lawton served as Senior Vice President, North America at eBay, Inc. since May 2015. Mr. Lawton previously held a number of leadership positions at Home Depot, Inc. from 2005 to 2015, including Senior Vice President of Merchandising and head of Home Depot's online business. Since January 2019, Mr. Lawton has served as a director of Sealed Air Corporation and previously served as a director of Buffalo Wild Wings, Inc. from October 2016 to February 2018.

Kurt D. Barton was promoted to Executive Vice President – Chief Financial Officer and Treasurer in February 2019, after having served as Senior Vice President – Chief Financial Officer and Treasurer since March 2017. Prior to that time, Mr. Barton served as Senior Vice President – Controller of the Company since February 2016. Mr. Barton previously served as Vice President – Controller from February 2009, after having served as Director, Internal Audit from July 2002 to February 2009. Mr. Barton has served in various other leadership roles in accounting since he joined the Company in 1999. Mr. Barton, a Certified Public Accountant, began his career in public accounting in 1993, spending six years at Ernst & Young, LLP.

Benjamin F. Parrish, Jr. has served as Executive Vice President – General Counsel and Corporate Secretary of the Company since February 2016, after having served as Senior Vice President – General Counsel and Corporate Secretary of the Company since October 2010. Mr. Parrish previously served as Executive Vice President and General Counsel of MV Transportation, Inc. from September 2008, until he joined the Company. Mr. Parrish served as Senior Vice President and General Counsel of Central Parking Corporation from 1998 to 2008.

Robert D. Mills has served as Executive Vice President – Chief Technology, Digital Commerce and Strategy Officer since August 2018, prior to which he served as Senior Vice President – Chief Information Officer since February 2014. Mr. Mills previously served as Chief Information Officer for Ulta Beauty from October 2011, until he joined the Company. From 2005 to 2011, Mr. Mills was Vice President, Chief Information Officer for the online business unit at Sears Holdings Corporation where he began as an Information Technology Customer Relationship Leader in 2001. Prior to 2001, Mr. Mills held roles at Allstate Insurance, Rockwell International Telecommunications Division, and Household Finance Corporation. Since March 2018, Mr. Mills has served as a director of B&G Foods, Inc.

John P. Ordus was promoted to Executive Vice President - Chief Stores Officer in February 2020, after having served as Senior Vice President - Store Operations since August 2015. Prior to that time, Mr. Ordus served the Company as Regional Vice President from June 2010 and as a Regional Director for the Company since September 2008. Mr. Ordus joined the Company as a District Manager in February 2002 after the acquisition of Quality Farm and Fleet with which Mr. Ordus held roles since January 1988.

Jonathan S. Estep was promoted to Executive Vice President - Chief Merchandising Officer in February 2020, after having served as the Senior Vice President, General Merchandising since April 2017. Prior to that time, Mr. Estep served the Company as a Vice President, Divisional Merchandise Manager from February 2014. Mr. Estep also previously served in various other leadership roles in merchandising since he re-joined the Company in January 2008.

Christi C. Korzekwa has served as Senior Vice President, Marketing since February 2015, having previously served as Vice President, Marketing since she joined the Company in February 2012. Prior to joining the Company, Ms. Korzekwa served as Senior Vice President, Director of Client Services for Blue Sky Agency. She worked for Home Depot, Inc. from 2004 to 2011 in roles of increasing importance in marketing and advertising, most recently as Senior Director, Marketing. Before joining Home Depot, Ms. Korzekwa spent 17 years with TM Advertising, most recently serving as their Senior Vice President, Global Media Director.

Colin W. Yankee was promoted to Executive Vice President - Chief Supply Chain Officer in February 2020, after having served as Senior Vice President, Supply Chain since November 2015 when he joined the Company. Mr. Yankee was previously Vice President of Logistics for Neiman Marcus from 2013 to 2015. Prior to that time, Mr. Yankee held various leadership roles in logistics and supply chain with the Target Corporation since 2004. He began his career as a Cavalry Officer, Captain in the United States Army.

Additional Information

We file reports with the Securities and Exchange Commission (“SEC”), including Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports as required. We are an electronic filer and the SEC maintains an Internet website at sec.gov that contains the reports, proxy and information statements, and other information we file.

We make available, free of charge through our Internet website, TractorSupply.com, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information provided on our website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

Item 1A. Risk Factors

Our business faces many risks. Those risks of which we are currently aware and deem to be material are described below. If any of the events or circumstances described in the following risk factors occur, our business, financial condition or results of operations may significantly suffer, and the trading price of our common stock could decline. These risk factors should be read in conjunction with the other information in this Form 10-K.

General economic conditions may adversely affect our financial performance.

Our results of operations may be sensitive to changes in overall economic conditions that impact consumer spending, including discretionary spending. A weakening of economic conditions affecting disposable consumer income such as lower employment levels, uncertainty or changes in business or political conditions, higher interest rates, higher tax rates, higher fuel and energy costs, higher labor and healthcare costs, the impact of natural disasters or acts of terrorism, general health epidemics, and other matters could reduce consumer spending or cause consumers to shift their spending to competitors. A general reduction in the level of discretionary spending, shifts in consumer discretionary spending to our competitors or shifts in discretionary spending to less profitable products sold by us could result in lower net sales, slower inventory turnover, greater markdowns on inventory, and a reduction in profitability due to lower margins.

Failure to protect our reputation could have a material adverse effect on our brand name or any of our exclusive brands.

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

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

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

Purchase price volatility, including inflationary and deflationary pressures, may adversely affect our financial performance.

Although we cannot determine the full effect of inflation and deflation on our operations, we believe our sales and results of operations are affected by both. We are subject to market risk with respect to the pricing of certain products and services, which include, among other items, grain, corn, steel, petroleum, cotton, and other commodities, as well as duties, tariffs, diesel fuel, and transportation services. Therefore, we may experience both inflationary and deflationary pressure on product cost, which may impact consumer demand and, as a result, sales and gross margin. Our strategy is to reduce or mitigate the effects of purchase price volatility principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases, adjusting retail prices, and selectively buying from the most competitive vendors while maintaining product quality. Should our strategy to mitigate purchase price volatility not be effective, our financial performance could be adversely impacted.

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

Weather conditions affect the demand for, and in some cases the supply of, products, which in turn has an impact on prices. Historically, weather conditions, including unseasonably warm weather in the fall and winter months and unseasonably cool weather in the spring and summer months, have affected the timing and volume of our sales and results of operations. In addition, extreme weather conditions, including snow and ice storms, flood and wind damage, hurricanes, tornadoes, extreme rain, and droughts, have impacted operating results. While extreme weather conditions can positively impact our operating results by increasing demand in affected locations for products needed to cope with the weather condition and its effects, they can also negatively affect our business depending on the severity and length of these conditions, as a result of store closings, damage to our stores or merchandise, or the inability of customers to shop at our stores due to weather conditions. Our strategy is to manage product flow and adjust merchandise assortments and depth of inventory to capitalize on seasonal demand trends. Should such a strategy not be effective, the weather may have a material adverse effect on our financial condition and results of operations.

Our merchandising and marketing initiatives may not provide expected results.

We believe our past performance has been based on, and future success will depend upon, in part, the ability to develop and execute merchandising initiatives with effective marketing programs. These merchandising initiatives and marketing programs may not deliver expected results, and there is no assurance that we will correctly identify and respond in a timely manner to evolving trends and consumer preferences and expectations. Further, adverse publicity about our merchandise products, whether valid or not, may discourage consumers from buying the products we offer. If we misjudge the market or our marketing programs are not successful, we may overstock unpopular products and be forced to take inventory impairment or retail price reductions that have a material adverse effect on our profitability. Failure to execute and promote such initiatives in a timely manner could harm our ability to grow the business and could have a material adverse effect on our results of operations and financial condition. Shortages of key merchandise could also have a material adverse effect on our financial condition and results of operations.

Capital required for growth may not be available.

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

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

Longer-term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced funding alternatives, or failures of significant financial institutions could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures could include deferring capital expenditures and reducing or eliminating future share repurchases, cash dividends, or other discretionary uses of cash.

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

An integral part of our business strategy includes the expansion of our store base through new store openings. This expansion strategy is dependent on our ability to find suitable locations, and we face competition from many retailers and other businesses for such sites. If we are unable to implement this strategy, our ability to increase our sales, profitability, and cash flow could be impaired significantly. To the extent that we are unable to open new stores in the manner we anticipate (due to, among other reasons, site approval or unforeseen delays in construction), our sales growth may be impeded.

As we execute this expansion strategy, we may also experience managerial or operational challenges which may prevent any expected increase in sales, profitability, or cash flow. Our ability to manage our planned expansion depends on the adequacy of our existing information systems, the efficiency and expansion of our distribution systems, the adequacy of the hiring and training process for new personnel (especially store managers), the effectiveness of our controls and procedures, and the ability to identify customer demand and build market awareness in different geographic areas. There can be no assurance that we will be able to achieve our planned expansion, that the new stores will be effectively integrated into our existing operations or that such stores will be profitable.

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

Our failure to attract and retain qualified team members, increases in wage, and labor costs, and changes in laws and other labor issues could adversely affect our financial performance.

Our ability to maintain and continue expanding operations depends on our ability to attract and retain a large and growing number of qualified team members. Our ability to meet labor needs while controlling wage and related labor costs is subject to numerous external factors, including the availability of a sufficient number of qualified persons in the work force, unemployment levels, prevailing wage rates, increases in legally required minimum wage rates, changing demographics, health and other insurance costs, changes in employment legislation and the potential for changes in local labor practices or union activities. If we are unable to locate, attract or retain qualified personnel, or if costs of labor or related costs increase significantly, our financial performance could be adversely affected.

We are subject to federal, state, and local laws governing employment practices and working conditions. These laws cover wage and hour practices, labor relations, paid and family leave, workplace safety and immigration, among others. The laws and regulations being passed at the state and local level create unique challenges for a multi-state employer. We must continue to monitor and adapt our employment practices to comply with these various laws and regulations. If our costs of labor or related costs increase significantly as new or revised labor laws, rules or regulations or healthcare laws are adopted or implemented, our financial performance could be adversely affected.

The loss of current members of our senior management team and other key team members or the failure to successfully manage an executive officer transition may adversely affect our operating results.

Our success depends in large part on the continued availability and service of our executive officers, senior management, and other key team members. Competition for senior management and key team members in our industry is strong and we may not be able to retain our key team members or attract new qualified team members. We must continue to recruit, retain, and motivate management and other team members sufficiently, both to maintain our current business and to execute our long-term strategic growth initiatives. The loss of any of our executive officers or other key senior management without sufficient advance notice could prevent or delay the implementation and completion of our strategic initiatives or divert management's attention to seeking qualified replacements. Additionally, any failure by us to manage a successful leadership transition of an executive officer and to timely identify a qualified permanent replacement could harm our business and have a material adverse effect on our results of operations.

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

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

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

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

We face risks from our use of service providers or other third-parties whom we rely upon for conducting our business.

The Company is dependent upon numerous service providers and other third-parties to conduct our business. While the Company selects these third-party vendors carefully, it does not control their actions. Any failure of these third-parties to provide the expected or agreed-upon level of service in a timely manner for any reason could adversely affect the Company's ability to deliver products and services to its customers and otherwise conduct its business. Further, our reputation or brand could be adversely impacted by the actions of these third-parties.

We face risks associated with vendors from whom our products are sourced.

The products we sell are sourced from a variety of domestic and international vendors. We have agreements with our vendors in which the vendors agree to comply with applicable laws, including labor and environmental laws, and to indemnify us against certain liabilities and costs. Our ability to recover liabilities and costs under these vendor agreements is dependent upon the financial condition and integrity of the vendors. We rely on long-term relationships with our suppliers but have no significant long-term contracts with such suppliers. Our future success will depend in large measure upon our ability to maintain our existing supplier relationships or to develop new ones. This reliance exposes us to the risk of inadequate and untimely supplies of various products due to political, economic, social, health (including, but not limited to, the recent COVID-19 coronavirus outbreak originating in China), or environmental conditions, transportation delays, or changes in laws and regulations affecting distribution. Our vendors may be forced to reduce their production, shut down their operations or file for bankruptcy protection, which could make it difficult for us to serve the market's needs and could have a material adverse effect on our business.

While the Company selects these third-party vendors carefully, it does not control their actions or the components or manufacturer of their products. Any problems caused by these third-parties, or issues associated with their products, including customer or governmental complaints, breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, and cyber attacks or security breaches at a vendor could subject the Company to litigation and adversely affect the Company's ability to deliver products and services to its customers and have a material adverse effect on our results of operations and financial condition.

We rely on foreign manufacturers for various products that we sell. In addition, many of our domestic suppliers purchase a portion of their products from foreign sources. As an importer, our business is subject to the risks generally associated with doing business internationally, such as domestic and foreign governmental regulations, economic disruptions, global or regional health epidemics, delays in shipments, transportation capacity and costs, currency exchange rates, and changes in political or economic conditions in countries from which we purchase products. If any such factors were to render the conduct of business in particular countries undesirable or impractical or if additional U.S. quotas, duties, tariffs, taxes, or other charges or restrictions were imposed upon the importation of our products in the future, our financial condition and results of operations could be materially adversely affected.

The current political landscape in the U.S. has introduced greater uncertainty with respect to tax and trade policies, tariffs and regulations affecting trade between the U.S. and other countries. We source a portion of our merchandise from manufacturers located outside the U.S., primarily in Asia and Central America. Major developments in tax policy or trade relations, such as the disallowance of tax deductions for imported merchandise or the imposition of tariffs on imported products, could have a material adverse effect on our business, results of operations, and financial condition.

We rely on manufacturers located in foreign countries, including China, for merchandise. Additionally, a portion of our domestically purchased merchandise is manufactured abroad. Our business may be materially adversely affected by risks associated with international trade, including the impact of tariffs (imposed and potential) by the U.S. with respect to certain consumer goods imported from China.

We source a portion of our merchandise from manufacturers located outside the U.S., primarily in Asia and Central America, and many of our domestic vendors have a global supply chain. The U.S. has imposed tariffs on certain products imported into the U.S. from China and could propose additional tariffs. The imposition of tariffs on imported products has increased our costs and could result in reduced sales and profits. In addition, the imposition of tariffs by the U.S. has resulted in the adoption of tariffs by China on U.S. exports and could result in the adoption of tariffs by other countries as well. A resulting trade war could have a significant adverse effect on world trade and the world economy. Further, the imposition of tariffs or other changes in world trade could have an impact on certain U.S. industries and consumers and could negatively impact the consumer demand for products that we sell.

We continue to evaluate the impact of the effective and potential tariffs on our supply chain, costs, sales, and profitability as well as our strategies to mitigate any negative impact, including negotiating with our vendors, seeking alternative sourcing options, and adjusting retail selling prices. Given the uncertainty regarding the scope and duration of the current and potential tariffs, as well as the potential for additional trade actions by the U.S. or other countries, the impact on our business, results of operations, and financial condition is uncertain but could be significant. Thus, we can provide no assurance that any strategies we implement to mitigate the impact of such tariffs or other trade actions will be successful in whole or in part in mitigating the impact of any current or future tariffs. To the extent that our supply chain, costs, sales, or profitability are negatively affected by the tariffs or other trade actions, our business, financial condition, and results of operations may be materially adversely affected.

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

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

negatively affect our business. Also, a fire, tornado, or other disaster at one of our distribution facilities could disrupt our timely receiving, processing, and shipment of merchandise to our stores which could adversely affect our business.

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

We maintain a network of distribution facilities and have plans to build new distribution facilities and expand existing facilities to support our long-term strategic growth initiatives. Delays in opening new or expanded distribution facilities could adversely affect our future operations by slowing store growth or negatively impacting our fulfillment capabilities, which may in turn reduce revenue growth. In addition, distribution-related construction or expansion projects entail risks which could cause delays and cost overruns, such as: shortages of materials; shortages of skilled labor or work stoppages; unforeseen construction, scheduling, engineering, environmental, or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. The completion date and ultimate cost of future projects could differ significantly from initial expectations due to construction-related or other reasons. We cannot guarantee that all projects will be completed on time or within established budgets.

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

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

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

Additionally, we are subject to U.S. federal, state, and local employment laws that expose us to potential liability if we are determined to have violated such employment laws, including but not limited to, laws pertaining to minimum wage rates, overtime pay, discrimination, harassment, and wrongful termination. Compliance with these laws, including the remediation of any alleged violation, may have a material adverse effect on our business or results of operations.

Failure to maintain an effective system of internal control over financial reporting could materially impact our business and results.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. An internal control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal control systems, internal control over financial reporting may not prevent or detect misstatements. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud, and could expose us to litigation or adversely affect the market price of our common stock.

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

We depend on information systems and technology, some of which are managed or provided by third-parties, for many activities important to our business. As do most retailers, we receive and store in our information systems certain personal and other sensitive information about our business, customers, employees, and vendors. Additionally, we also receive and process information permitting cashless payments as part of our in-store and online operations at TractorSupply.com, some of which depend upon the secure transmission of confidential information over public networks. The information that we receive and store makes us subject to cybersecurity attacks, cyber incidents and privacy regulations, which are occurring more frequently, are constantly evolving in nature, are becoming more sophisticated, and are being made by groups and individuals with a wide range of expertise and motives. We are the target of attempted cyber and other security threats and continuously monitor our information technology networks and infrastructure in an effort to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. However, these security measures cannot provide absolute assurance or guarantee that we will be successful in preventing, detecting, or responding to every such breach or disruption and/or preventing the misuse of confidential information of our business, customers, employees, or vendors. Similar risks exist with respect to the third-party vendors that we rely upon for aspects of our information technology support services and administrative functions, even if the attack or breach does not directly impact our systems or information.

A compromise of our information security and privacy controls, or those of businesses and vendors with whom we interact, which results in confidential information being accessed, obtained, damaged, or used by unauthorized or improper parties; loss or unavailability of data; disruptions to our business activities; or any other outcome stemming from a cybersecurity incident could materially adversely affect our reputation with our customers, team members, and vendors, as well as our operations, results of operations, financial condition, and liquidity, and could result in significant legal and financial exposure beyond the scope or limits of insurance coverage. Moreover, a security breach could require that we expend significant additional resources to respond to the attack or breach and could result in a disruption of our operations.

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

We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability, and potentially disrupt our business.

We accept payments using a variety of methods, including credit cards, debit cards, credit accounts, our private label and co-branded credit cards, gift cards, direct debit from a customer's bank account, consumer invoicing, and physical bank checks, and we may offer different payment options over time. These payment options subject us to many compliance requirements, including, but not limited to, compliance with payment card association operating rules, including data security rules, certification requirements, rules governing electronic funds transfers, and Payment Card Industry Data Security Standards. They also subject us to potential fraud by criminal elements seeking to discover and take advantage of security vulnerabilities that may exist in some of these payment systems. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, electronic checks, gift cards and promotional financing, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. If we fail to comply with these rules or requirements, adequately encrypt payment transaction data, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

Our business and operations could suffer material losses in the event of system interruptions or failures.

Our information technology systems, some of which are dependent on services managed or provided by third-parties, serve an important role in the operation and administration of our business. These systems are vulnerable to damages from any number of sources, including, but not limited to, human error, cybersecurity attacks, computer viruses, unauthorized access, fire, flood, power outages, telecommunication failures, facility or equipment damage, natural disasters, terrorism, and war. In addition, we

continually make investments in technology to implement new processes and systems, as well as to maintain and update our existing processes and systems. Implementing process and system changes increases the risk of disruption. If our information technology systems are interrupted or fail and our redundant systems or recovery plans are not adequate to address such interruptions or failures on a timely basis, our revenues and profits could be reduced and the reputation of our brand and our business could be materially adversely affected. Additionally, remediation of any problems with our systems could result in significant, unplanned expenses.

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

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

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

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

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

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

Although our Board of Directors has indicated an intention to pay future quarterly cash dividends on our common stock, any determination to pay or increase cash dividends on our common stock in the future will be based primarily upon our financial condition, results of operations, business requirements, and our Board of Directors' continuing determination that the declaration of dividends is in the best interests of our stockholders and is in compliance with all laws and agreements applicable to the dividend. Furthermore, although our Board of Directors has authorized a share repurchase program of up to \$4.5 billion, we may discontinue this program at any time or significantly reduce repurchases under the program.

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

The price at which our common stock trades may be volatile and could be subject to significant fluctuations in response to our operating results, general trends and prospects for the retail industry, announcements by our competitors, analyst recommendations, our ability to meet or exceed analysts' or investors' expectations, the condition of the financial markets, and other factors. The Company's stock price is dependent in part on the multiple of earnings that investors are willing to pay. That multiple is in part dependent on investors' perception of the Company's future earnings growth prospects. If investors' perception of the Company's earnings growth prospects change, the Company's earnings multiple may decline and its stock price could be adversely affected.

In addition, the stock market has at times experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of companies. These fluctuations, as well as general economic and market conditions, may adversely affect the market price of our common stock notwithstanding our actual operating performance.

Our business could be negatively impacted as a result of federal, state, local, or foreign laws and regulations.

We are subject to numerous federal, state, local, and foreign laws and governmental regulations including those relating to environmental protection, personal injury, intellectual property, consumer product safety, building, land use and zoning requirements, workplace regulations, wage and hour, privacy and information security, and employment law matters.

Our operations, including our outsourced exclusive brand manufacturing partners, are subject to regulation by the Occupational Safety and Health Administration (“OSHA”), the Food and Drug Administration (the “FDA”), the Department of Agriculture (the “USDA”) and by various other federal, state, local and foreign authorities regarding the processing, packaging, storage, distribution, advertising, labeling and export of our products, including food safety standards.

If we fail to comply with existing or future laws or regulations, or if these laws or regulations are violated by importers, manufacturers or distributors, we may be subject to governmental or judicial fines or sanctions, while incurring substantial legal fees and costs. In addition, our capital expenditures could increase due to remediation measures that may be required if we are found to be noncompliant with any existing or future laws or regulations.

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

Potential noncompliance with environmental regulations could materially impact our results of operations or financial condition.

Our business is subject to various federal, state, and local laws, regulations, and other requirements pertaining to protection of the environment and public health, including, for example, regulations governing the management of waste materials and waste waters. Governmental agencies on the federal, state, and local levels have, in recent years, increasingly focused on the retail sector’s compliance with such laws and regulations, and have at times pursued enforcement activities. We periodically receive information requests and notices of potential noncompliance with environmental laws and regulations from governmental agencies, which are addressed on a case-by-case basis with the relevant agency. Any of these events could have a material adverse effect on our results of operations or financial condition.

Effective tax rate changes and results of examinations by taxing authorities could materially impact our results.

Our future effective tax rates could be adversely affected by legislative tax reform, changes in statutory rates or changes in tax laws, or interpretations thereof. Additionally, our future effective tax rates could be adversely affected by the earnings mix being lower than historical results in states where we have lower statutory rates and higher than historical results in states where we have higher statutory rates or by changes in the measurement of our deferred tax assets and liabilities.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 28, 2019, the Company operated 2,024 stores in 49 states (1,844 Tractor Supply and Del’s retail stores and 180 Petsense retail stores). The Company leases approximately 94% of its stores. Store leases typically have initial terms of between 10 and 15 years, with two to four optional renewal periods of five years each, exercisable at our option. No single lease is material to the Company’s operations.

The following is a count of store locations by state:

State	Number of Stores	State	Number of Stores
Texas	221	Wisconsin	24
North Carolina	100	Massachusetts	23
Pennsylvania	97	Maryland	23
Tennessee	97	Colorado	22
Ohio	93	Illinois	22
Georgia	92	Maine	21
Michigan	90	New Hampshire	21
New York	90	New Jersey	21
Florida	73	Connecticut	20
Kentucky	71	Nebraska	18
California	69	Utah	15
Indiana	63	North Dakota	14
Virginia	63	Minnesota	13
Alabama	62	Oregon	10
Louisiana	59	Iowa	9
Oklahoma	56	South Dakota	9
South Carolina	48	Vermont	8
Mississippi	41	Wyoming	8
Arkansas	38	Delaware	6
Arizona	34	Montana	6
Missouri	30	Idaho	5
New Mexico	29	Rhode Island	5
West Virginia	28	Nevada	4
Kansas	26	Hawaii	2
Washington	25		
			2,024

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

Distribution Facility Location	Approximate Square Footage	Owned/Leased Facility
Frankfort, New York	924,000	Owned
Franklin, Kentucky	833,000	Owned
Pendleton, Indiana	764,000	Owned
Macon, Georgia	684,000	Owned
Waco, Texas	666,000	Owned
Casa Grande, Arizona	650,000	Owned
Hagerstown, Maryland ^(a)	482,000	Owned
Hagerstown, Maryland ^(a)	309,000	Leased
Waverly, Nebraska	592,000	Owned
Seguin, Texas ^(b)	71,000	Owned
Lakewood, Washington ^(b)	64,000	Leased
Longview, Texas ^(b)	63,000	Owned

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

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

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

Item 3. Legal Proceedings

The Company is involved in various litigation matters arising in the ordinary course of business. The Company believes that, based upon information currently available, any estimated loss related to such matters has been adequately provided for in accrued liabilities to the extent probable and reasonably estimable. Accordingly, the Company currently expects these matters will be resolved without material adverse effect on its consolidated financial position, results of operations or cash flows. However, litigation and other legal matters involve an element of uncertainty. Future developments in such matters, including adverse decisions or settlements or resulting required changes to the Company's business operations, could affect our consolidated operating results when resolved in future periods or could result in liability or other amounts material to the Company's Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

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

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

	Price Range			
	2019		2018	
	High	Low	High	Low
First Quarter	\$98.58	\$80.31	\$82.68	\$58.78
Second Quarter	\$109.67	\$96.61	\$79.04	\$58.27
Third Quarter	\$114.25	\$88.41	\$92.45	\$74.93
Fourth Quarter	\$99.37	\$89.07	\$97.65	\$78.67

As of January 25, 2020, the number of record holders of our common stock was 519 (excluding individual participants in nominee security position listings), and the estimated number of beneficial holders of our common stock was approximately 240,000.

Common Stock Dividends

During fiscal 2019 and 2018, the Company's Board of Directors declared the following cash dividends:

Date Declared	Dividend Amount Per Share of Common Stock	Record Date	Date Paid
November 6, 2019	\$0.35	November 25, 2019	December 10, 2019
August 7, 2019	\$0.35	August 26, 2019	September 10, 2019
May 8, 2019	\$0.35	May 28, 2019	June 11, 2019
February 6, 2019	\$0.31	February 25, 2019	March 12, 2019
November 7, 2018	\$0.31	November 26, 2018	December 11, 2018
August 8, 2018	\$0.31	August 27, 2018	September 11, 2018
May 9, 2018	\$0.31	May 29, 2018	June 12, 2018
February 7, 2018	\$0.27	February 26, 2018	March 13, 2018

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

On February 5, 2020, the Company's Board of Directors declared a quarterly cash dividend of \$0.35 per share of the Company's outstanding common stock. The dividend will be paid on March 10, 2020, to stockholders of record as of the close of business on February 24, 2020.

Issuer Purchases of Equity Securities

The Company's Board of Directors has authorized common stock repurchases under a share repurchase program. On May 8, 2019, the Company's Board of Directors authorized a \$1.5 billion increase to the existing share repurchase program, bringing the total amount authorized since the inception of the program up to \$4.5 billion, exclusive of any fees, commissions or other expenses related to such repurchases. Additionally, the Company withholds shares from vested restricted stock units and performance-based restricted share units to satisfy employees' minimum statutory tax withholding requirements. Stock purchase activity during fiscal 2019 is set forth in the table below:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
First Quarter ^(a)	1,758,099	\$ 90.07	1,724,100	\$ 364,717,356
Second Quarter ^(a)	1,733,618	103.27	1,732,500	1,685,822,720
Third Quarter ^(a)	1,476,094	105.95	1,469,713	1,530,099,430
Fourth Quarter: ^(a)				
9/29/19 - 10/26/19	119,000	93.12	119,000	1,519,019,236
10/27/19 - 11/23/19	111,288	96.43	111,000	1,508,316,429
11/24/19 - 12/28/19	228,000	94.55	228,000	1,486,763,173
	458,288	94.64	458,000	1,486,763,173
As of December 28, 2019	5,426,099	\$ 98.99	5,384,313	\$ 1,486,763,173

^(a) The total number of shares purchased and average price paid per share include shares withheld from vested stock awards to satisfy employees' minimum statutory tax withholding requirements of 33,999 during the first quarter, 1,118 during the second quarter, 6,381 during the third quarter, and 288 during the fourth quarter.

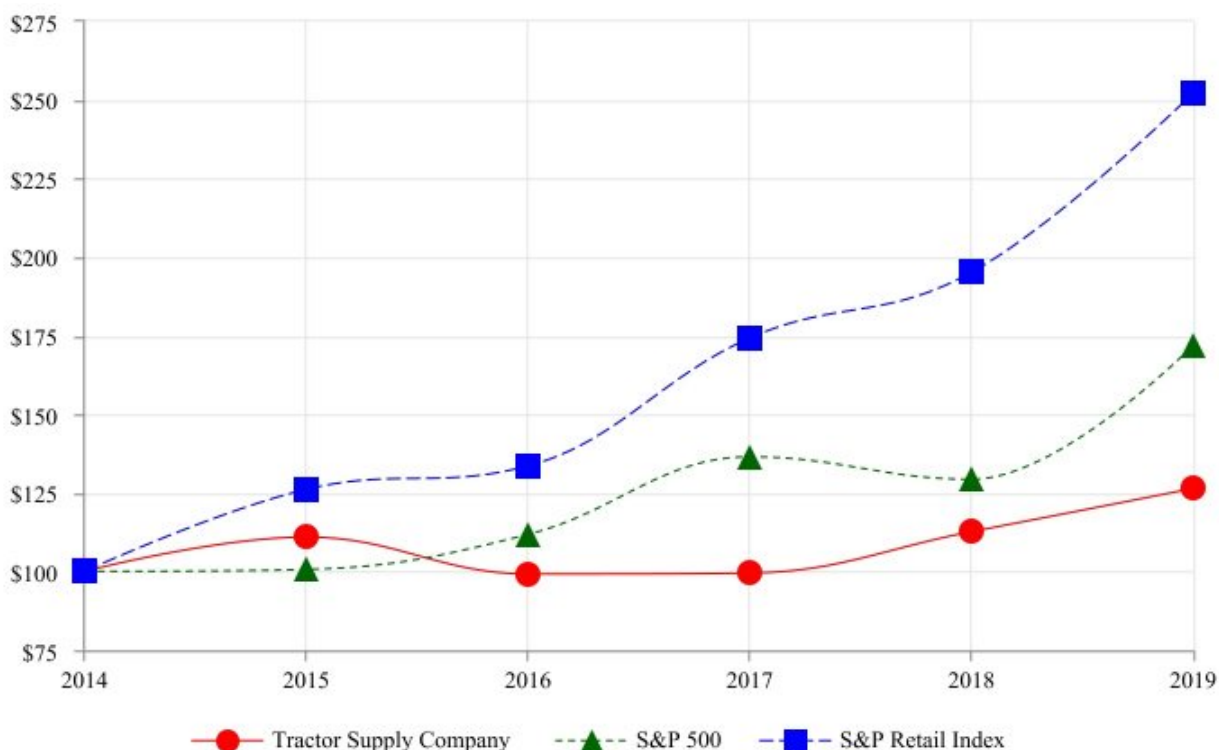
We expect to implement the balance of the repurchase program through purchases made from time to time either in the open market or through private transactions, in accordance with regulations of the SEC and other applicable legal requirements. The timing and amount of any common stock repurchased under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

Any additional stock repurchase programs will be subject to the discretion of our Board of Directors and will depend upon earnings, financial condition, and capital needs of the Company, along with any other factors which the Board of Directors deem relevant. The program may be limited or terminated at any time, without prior notice.

STOCK PERFORMANCE GRAPH

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

The following graph compares the cumulative total stockholder return on our common stock from December 27, 2014 to December 28, 2019 (the Company’s fiscal year-end), with the cumulative total returns of the S&P 500 Index and the S&P Retail Index over the same period. The comparison assumes that \$100 was invested on December 27, 2014, in our common stock and in each of the foregoing indices and in each case assumes reinvestment of dividends. The historical stock price performance shown on this graph is not indicative of future performance.



	12/27/2014	12/26/2015	12/31/2016	12/30/2017	12/29/2018	12/28/2019
Tractor Supply Company	\$ 100.00	\$ 110.89	\$ 99.25	\$ 99.58	\$ 112.55	\$ 126.57
S&P 500	\$ 100.00	\$ 100.77	\$ 111.92	\$ 136.35	\$ 129.26	\$ 171.88
S&P Retail Index	\$ 100.00	\$ 126.12	\$ 133.60	\$ 174.21	\$ 195.19	\$ 252.10

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

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

	2019 (52 weeks)	2018 (52 weeks)	2017 (52 weeks)	2016 (53 weeks)	2015 (52 weeks)
Operating Results:					
Net sales	\$ 8,351,931	\$ 7,911,046	\$ 7,256,382	\$ 6,779,579	\$ 6,226,507
Gross profit	2,871,770	2,702,528	2,491,965	2,325,202	2,143,174
Selling, general and administrative expenses	1,932,572	1,823,440	1,639,749	1,488,164	1,369,097
Depreciation and amortization	195,978	177,351	165,834	142,958	123,569
Operating income	743,220	701,737	686,382	694,080	650,508
Interest expense, net	19,843	18,352	13,859	5,810	2,891
Income before income taxes	723,377	683,385	672,523	688,270	647,617
Income tax expense	161,023	151,028	249,924	251,150	237,222
Net income	\$ 562,354	\$ 532,357	\$ 422,599	\$ 437,120	\$ 410,395
Net income per share – basic (c)	\$ 4.70	\$ 4.34	\$ 3.31	\$ 3.29	\$ 3.03
Net income per share – diluted (c)	\$ 4.66	\$ 4.31	\$ 3.30	\$ 3.27	\$ 3.00
Weighted average shares – diluted (c)	120,743	123,471	128,204	133,813	136,845
Dividends declared per common share outstanding	\$ 1.36	\$ 1.20	\$ 1.05	\$ 0.92	\$ 0.76
Operating Data (percent of net sales):					
Gross margin	34.4 %	34.2 %	34.3 %	34.3 %	34.4 %
Selling, general and administrative expenses	23.1 %	23.0 %	22.6 %	22.0 %	22.0 %
Operating income	8.9 %	8.9 %	9.4 %	10.2 %	10.4 %
Net income	6.7 %	6.7 %	5.8 %	6.4 %	6.6 %
Store, Sales, and Other Data:					
Stores open at end of year	2,024	1,940	1,853	1,738	1,488
Comparable store sales increase (d)	2.7 %	5.1 %	2.7 %	1.6 %	3.1 %
New store sales (as a % of net sales) (e)	2.8 %	3.8 %	5.6 %	5.6 %	5.6 %
Average transaction value	\$ 46.89	\$ 45.85	\$ 44.61	\$ 44.42	\$ 44.87
Comparable store average transaction value increase (decrease) (c)	2.4 %	2.8 %	0.5 %	(0.9)%	(0.2)%
Comparable store average transaction count increase (d)	0.3 %	2.2 %	2.2 %	2.6 %	3.3 %
Total selling square footage (000's)	30,854	29,571	28,180	26,511	23,938
Total team members	33,500	30,500	29,300	26,000	23,000
Capital expenditures (000's)	\$ 217,450	\$ 278,530	\$ 250,401	\$ 226,017	\$ 236,496
Balance Sheet Data (at end of period):					
Average inventory per store (f)	\$ 751.3	\$ 766.8	\$ 735.4	\$ 741.7	\$ 820.1
Inventory turns	3.23	3.27	3.24	3.19	3.23
Working capital	\$ 540,287	\$ 856,292	\$ 806,154	\$ 740,615	\$ 768,177
Total assets (g)	\$ 5,289,268	\$ 3,085,262	\$ 2,868,769	\$ 2,674,942	\$ 2,370,826
Long-term debt, less current portion (h)	\$ 396,869	\$ 410,370	\$ 433,686	\$ 289,769	\$ 166,992
Operating lease liabilities, less current portion (g)	\$ 2,001,162	\$ —	\$ —	\$ —	\$ —
Stockholders' equity	\$ 1,567,123	\$ 1,561,820	\$ 1,418,673	\$ 1,453,218	\$ 1,393,294

(a) Our fiscal year includes 52 or 53 weeks and ends on the last Saturday of the calendar year. References to fiscal year mean the year in which that fiscal year ended. Fiscal year 2016 consisted of 53 weeks while all other fiscal years presented consisted of 52 weeks.

(b) Beginning in the fourth quarter ended December 31, 2016, selected financial and operating information includes the consolidation of Petsense, unless otherwise noted.

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

(d) Comparable store metrics are calculated on an annual basis using sales generated from all stores open at least one year and all online sales, excluding certain adjustments to net sales. Stores closed during the year are removed from our comparable store metrics calculations. Stores relocated during the years being compared are not removed from our comparable store metrics. If the effect of relocated stores on our comparable store metrics becomes material, we would remove relocated stores from the calculations. Acquired Petsense stores are considered comparable stores beginning in the fourth quarter of fiscal 2017.

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

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

(g) As a result of the adoption of new lease accounting guidance in the first quarter of fiscal 2019, we recognized lease assets and liabilities for operating leases. Prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting policies. For additional information related to the impact of adopting this new accounting guidance, see Note 1, Note 6, and Note 14 to the Consolidated Financial Statements.

(h) Long-term debt includes amounts outstanding under the Company's debt facilities and finance lease obligations, excluding the current portions.

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

The following discussion and analysis is intended to provide the reader with information that will assist in understanding the significant factors affecting our consolidated operating results, financial condition, liquidity, and capital resources during the three-year period ended December 28, 2019 (our fiscal years 2019, 2018 and 2017). This discussion should be read in conjunction with our Consolidated Financial Statements and Notes to the Consolidated Financial Statements included elsewhere in this report. This discussion contains forward-looking statements. See “Forward-Looking Statements” and “Risk Factors” included elsewhere in this report.

Tractor Supply reports its financial results in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Tractor Supply also uses certain non-GAAP measures that fall within the meaning of Securities and Exchange Commission Regulation G and Regulation S-K Item 10(e), which may provide users of the financial information with additional meaningful comparison to prior reported results. Non-GAAP measures do not have standardized definitions and are not defined by U.S. GAAP. Therefore, Tractor Supply’s non-GAAP measures are unlikely to be comparable to similar measures presented by other companies. The presentation of these non-GAAP measures should not be considered in isolation from, as a substitute for, or as superior to the financial information presented in accordance with U.S. GAAP. We believe this information is useful in providing period-to-period comparisons of the results of our continuing operations.

Overview

Founded in 1938, Tractor Supply Company (the “Company” or “we” or “our” or “us”) is the largest rural lifestyle retailer in the United States (“U.S.”). The Company is focused on supplying the needs of recreational farmers, ranchers, and all those who enjoy living the rural lifestyle (which we refer to as the “*Out Here*” lifestyle), as well as tradesmen and small businesses. As of December 28, 2019, we operated 2,024 retail stores in 49 states under the names *Tractor Supply Company*, *Del’s Feed & Farm Supply*, and *Petsense*. We also operate websites under the names TractorSupply.com and Petsense.com. Our stores are located primarily in towns outlying major metropolitan markets and in rural communities, and they offer the following comprehensive selection of merchandise:

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

Tractor Supply Company believes we can grow our business by being the most dependable supplier of relevant products and services for the “*Out Here*” lifestyle, creating customer loyalty through personalized experiences, and providing convenience that our customers expect at anytime, anywhere, and in any way they choose. Our long-term growth strategy is to: (1) drive profitable growth through new store openings and by expanding omni-channel capabilities, thus tying together our website product content, social media, digital, and online shopping experience, attracting new customers and driving loyalty, (2) build customer-centric engagement by leveraging analytics to deliver legendary customer service, seasoned advice, and personalized experiences, (3) offer relevant assortments and services across all channels through exclusive and national brands and continue to introduce new products and services through our test and learn strategy, (4) enhance our core and foundational capabilities by investing in infrastructure and process improvements which will support growth, scale, and agility while improving the customer experience, and (5) expand through selective acquisitions, as such opportunities arise, to add complementary businesses and to enhance penetration into new and existing markets to supplement organic growth.

Achieving this strategy will require a foundational focus on: (1) organizing, optimizing, and empowering our team members for growth by developing skills, talent, and leadership across the organization, and (2) implementing operational efficiency initiatives, including leverage of technology and automation, to align our cost structure to support new business capabilities for margin improvement and cost reductions.

Over the past five years, we have experienced considerable growth in stores, growing from 1,382 stores at the end of fiscal 2014 to 2,024 stores (1,844 Tractor Supply and Del’s retail stores and 180 Petsense retail stores) at the end of fiscal 2019, and in net sales, with a compounded annual growth rate of approximately 7.9%. Given the size of the communities that we target, we believe that there is ample opportunity for new store growth in existing and new markets. We have developed a proven method for selecting store sites and have identified over 600 additional opportunities for new Tractor Supply stores. We also believe that there is opportunity for up to 1,000 Petsense stores.

Executive Summary

In fiscal 2019, we opened 80 new Tractor Supply stores in 29 states and eight new Petsense stores in four states. In fiscal 2018, we opened 80 new Tractor Supply stores in 33 states and 18 new Petsense stores in 14 states. This resulted in a selling square footage increase of approximately 4.3% in fiscal 2019 and approximately 4.9% in fiscal 2018.

Net sales increased 5.6% to \$8.35 billion in fiscal 2019 from \$7.91 billion in fiscal 2018. Comparable store sales increased 2.7% in fiscal 2019 versus a 5.1% increase in fiscal 2018. Gross profit increased 6.3% to \$2.87 billion in fiscal 2019 from \$2.70 billion in fiscal 2018, and gross margin increased 22 basis points to 34.38% of net sales in fiscal 2019 from 34.16% of net sales in fiscal 2018. Operating income increased three basis points to 8.90% of net sales in fiscal 2019 from 8.87% of net sales in fiscal 2018. For fiscal 2019, net income was \$562.4 million, or \$4.66 per diluted share, compared to \$532.4 million, or \$4.31 per diluted share, in fiscal 2018.

We ended the year with \$84.2 million in cash and outstanding debt of \$396.5 million, after returning \$696.0 million to our stockholders through stock repurchases and quarterly cash dividends.

Significant Accounting Policies and Estimates

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

Description

Judgments and Uncertainties

Effect if Actual Results Differ from Assumptions

Inventory Valuation:

Inventory Impairment

We identify potentially excess and slow-moving inventory by evaluating turn rates, historical and expected future sales trends, age of merchandise, overall inventory levels, current cost of inventory, and other benchmarks. We have established an inventory valuation reserve to recognize the estimated impairment in value (i.e., an inability to realize the full carrying value) based on our aggregate assessment of these valuation indicators under prevailing market conditions and current merchandising strategies.

We do not believe our merchandise inventories are subject to significant risk of obsolescence in the near term. However, changes in market conditions or consumer purchasing patterns could result in the need for additional reserves.

Our impairment reserve contains uncertainties because the calculation requires management to make assumptions and to apply judgment regarding forecasted customer demand and the promotional environment.

We have not made any material changes in the accounting methodology used to recognize inventory impairment reserves in the financial periods presented. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate impairment. However, if assumptions regarding consumer demand or clearance potential for certain products are inaccurate, we may be exposed to losses or gains that could be material. A 10% change in our inventory impairment reserve as of December 28, 2019, would have affected net income by approximately \$1.1 million in fiscal 2019.

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Shrinkage We perform physical inventories at least once a year for each store that has been open more than 12 months, and we have established a reserve for estimating inventory shrinkage between physical inventory counts. The reserve is established by assessing the chain-wide average shrinkage experience rate, applied to the related periods' sales volumes. Such assessments are updated on a regular basis for the most recent individual store experiences.	<p>The estimated store inventory shrink rate is based on historical experience. We believe historical rates are a reasonably accurate reflection of future trends.</p> <p>Our shrinkage reserve contains uncertainties because the calculation requires management to make assumptions and to apply judgment regarding future shrinkage trends, the effect of loss prevention measures and merchandising strategies.</p>	<p>We have not made any material changes in the accounting methodology used to recognize shrinkage in the financial periods presented.</p> <p>We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our shrinkage reserve. However, if our estimates regarding inventory losses are inaccurate, we may be exposed to losses or gains that could be material.</p> <p>A 10% change in our shrinkage reserve as of December 28, 2019, would have affected net income by approximately \$2.2 million in fiscal 2019.</p>
Vendor Funding We receive funding from substantially all of our significant merchandise vendors, in support of our business initiatives, through a variety of programs and arrangements, including guaranteed vendor support funds ("vendor support") and volume-based rebate funds ("volume rebates"). The amounts received are subject to terms of vendor agreements, most of which are "evergreen", reflecting the ongoing relationship with our significant merchandise vendors. Certain of our agreements, primarily volume rebates, are renegotiated annually, based on expected annual purchases of the vendor's product.	<p>The estimated purchase volume (and related vendor funding) is based on our current knowledge of inventory levels, sales trends and expected customer demand, as well as planned new store openings and relocations. Although we believe we can reasonably estimate purchase volume and related volume rebates at interim periods, it is possible that actual year-end results could be different from previously estimated amounts.</p> <p>Our allocation methodology contains uncertainties because the calculation requires management to make assumptions and to apply judgment regarding customer demand, purchasing activity, target thresholds, vendor attrition and collectability.</p>	<p>We have not made any material changes in the accounting methodology used to establish our vendor funding reserves in the financial periods presented.</p> <p>At the end of each fiscal year, a significant portion of the actual purchase activity is known. Thus, we do not believe there is a reasonable likelihood that there will be a material change in the amounts recorded as vendor funding.</p> <p>We do not believe there is a significant collectability risk related to vendor funding amounts due to us at the end of fiscal 2019.</p> <p>If a 10% reserve had been applied against our outstanding vendor funding due as of December 28, 2019, net income would have been affected by approximately \$2.2 million in fiscal 2019.</p> <p>Although it is unlikely that there will be any significant reduction in historical levels of vendor funding, if such a reduction were to occur in future periods, the Company could experience a higher inventory balance and higher cost of sales.</p>
Freight We incur various types of transportation and delivery costs in connection with inventory purchases and distribution. Such costs are included as a component of the overall cost of inventories (on an aggregate basis) and recognized as a component of cost of merchandise sold as the related inventory is sold.	<p>We allocate freight as a component of total cost of sales without regard to inventory mix or unique freight burden of certain categories. This assumption has been consistently applied for all years presented.</p>	<p>We have not made any material changes in the accounting methodology used to establish our capitalized freight balance or freight allocation in the financial periods presented.</p> <p>If a 10% increase or decrease had been applied against our current inventory capitalized freight balance as of December 28, 2019, net income would have been affected by approximately \$10.4 million in fiscal 2019.</p>

Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
Self-Insurance Reserves: <p>We self-insure a significant portion of our workers' compensation insurance and general liability (including product liability) insurance plans. We have stop-loss insurance policies to protect from individual losses over specified dollar values.</p> <p>Provisions for losses related to our self-insured liabilities are based upon periodic independent actuarially determined estimates that consider a number of factors including historical claims experience, loss development factors, and severity factors.</p>	<p>The full extent of certain workers' compensation and general liability claims may not become fully determined for several years.</p> <p>Our self-insured liabilities contain uncertainties because management is required to make assumptions and to apply judgment to estimate the ultimate cost to settle reported claims and claims incurred but not reported as of the balance sheet date based upon historical data and experience, including actuarial calculations.</p>	<p>We have not made any material changes in the accounting methodology used to establish our self-insurance reserves in the financial periods presented.</p> <p>We do not believe there is a reasonable likelihood that there will be a material change in the assumptions we use to calculate insurance reserves. However, if we experience a significant increase in the number of claims or the cost associated with these claims, we may be exposed to losses that could be material.</p> <p>A 10% change in our self-insurance reserves as of December 28, 2019, would have affected net income by approximately \$5.0 million in fiscal 2019.</p>
Impairment of Long-Lived Assets: <p>Long-lived assets, including lease assets, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.</p> <p>When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset or asset group to its estimated undiscounted future cash flows. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The significant assumptions used to determine estimated undiscounted cash flows include cash inflows and outflows directly resulting from the use of those assets in operations, including margin on net sales, payroll and related items, occupancy costs, insurance allocations, and other costs to operate a store.</p> <p>If the estimated future cash flows are less than the carrying value of the related asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the related asset or asset group to its estimated fair value, which may be based on an estimated future cash flow model, market valuation, or other valuation technique, as appropriate. We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining estimated useful life of that asset.</p>	<p>Our impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values.</p>	<p>We have not made any material changes in our impairment loss assessment methodology in the financial periods presented, other than to include operating lease right-of-use assets in our ongoing impairment assessment upon adoption of the new lease accounting standard in fiscal 2019.</p> <p>We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses. None of these estimates and assumptions are significantly sensitive, and a 10% change in any of these estimates would not have a material impact on our analysis. However, if actual results are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to losses that could be material.</p>

<u>Description</u>	<u>Judgments and Uncertainties</u>	<u>Effect if Actual Results Differ from Assumptions</u>
Impairment of Goodwill and Other Indefinite-Lived Intangible Assets:	Our impairment loss calculation contains uncertainties because they require management to make assumptions and to apply judgment to qualitative factors as well as estimate future cash flows and asset fair values, including forecasting projected financial information and selecting the discount rate that reflects the risk inherent in future cash flows.	The valuation approaches utilized to estimate fair value for the purposes of the impairment tests of goodwill and other indefinite-lived intangible assets require the use of assumptions and estimates, which involve a degree of uncertainty. If actual results are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to non-cash impairment losses that could be material.
Goodwill and other indefinite-lived intangible assets are evaluated for impairment annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.		
In accordance with the accounting standards, an entity has the option first to assess qualitative factors to determine whether events and circumstances indicate that it is more likely than not that goodwill or an indefinite-lived intangible asset is impaired. If after such assessment an entity concludes that the asset is not impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the asset using a quantitative impairment test, and if impaired, the associated assets must be written down to fair value.		
The quantitative impairment test for goodwill compares the fair value of a reporting unit with the carrying value of its net assets, including goodwill. If the fair value of the reporting unit is less than the carrying value of the reporting unit, an impairment charge would be recorded to the Company's operations, for the amount in which the carrying amount exceeds the reporting unit's fair value. We determine fair values for each reporting unit using the market approach, when available and appropriate, the income approach, or a combination of both. The income approach involves forecasting projected financial information (such as revenue growth rates, profit margins, tax rates, and capital expenditures) and selecting a discount rate that reflects the risk inherent in estimated future cash flows. Under the market approach, the fair value is based on observed market data. If multiple valuation methodologies are used, the results are weighted appropriately.		
The quantitative impairment test for other indefinite-lived intangible assets involves comparing the carrying amount of the asset to the sum of the discounted cash flows expected to be generated by the asset. If the implied fair value of the indefinite-lived intangible asset is less than the carrying value, an impairment charge would be recorded to the Company's operations.		

Quarterly Financial Data

Our unaudited quarterly operating results for each fiscal quarter of 2019 and 2018 are shown below (in thousands, except per share amounts):

	First Quarter (13 weeks)	Second Quarter (13 weeks)	Third Quarter (13 weeks)	Fourth Quarter (13 weeks)	Total (52 weeks)
2019					
Net sales	\$ 1,822,220	\$ 2,353,782	\$ 1,984,144	\$ 2,191,785	\$ 8,351,931
Gross profit	614,984	820,745	694,240	741,801	2,871,770
Operating income	103,408	287,557	161,817	190,438	743,220
Net income	76,832	219,210	122,133	144,179	562,354
Net income per share:					
Basic	\$ 0.63	\$ 1.82	\$ 1.03	\$ 1.22	\$ 4.70
Diluted	\$ 0.63	\$ 1.80	\$ 1.02	\$ 1.21	\$ 4.66
Comparable store sales increase ^(a)	5.0 %	3.2 %	2.9 %	0.1 %	2.7 %

	First Quarter (13 weeks)	Second Quarter (13 weeks)	Third Quarter (13 weeks)	Fourth Quarter (13 weeks)	Total (52 weeks)
2018					
Net sales	\$ 1,682,901	\$ 2,213,249	\$ 1,881,625	\$ 2,133,271	\$ 7,911,046
Gross profit	563,649	769,414	653,132	716,333	2,702,528
Operating income	94,749	273,458	153,148	180,382	701,737
Net income	71,433	207,289	116,784	136,851	532,357
Net income per share:					
Basic	\$ 0.57	\$ 1.70	\$ 0.96	\$ 1.12	\$ 4.34
Diluted	\$ 0.57	\$ 1.69	\$ 0.95	\$ 1.11	\$ 4.31
Comparable store sales increase ^(a)	3.7 %	5.6 %	5.1 %	5.7 %	5.1 %

^(a) Comparable store metrics are calculated using sales generated from all stores open at least one year and all online sales, excluding certain adjustments to net sales. Closed stores are removed from our comparable store metrics calculations. Stores relocated during the periods being compared are not removed from our comparable store metrics. If the effect of relocated stores on our comparable store metrics becomes material, we would remove relocated stores from the calculations.

Results of Operations

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

	Fiscal Year		
	2019	2018	2017
Net sales	100.00 %	100.00 %	100.00 %
Cost of merchandise sold ^(a)	65.62	65.84	65.66
Gross margin ^(a)	34.38	34.16	34.34
Selling, general and administrative expenses ^(a)	23.14	23.05	22.60
Depreciation and amortization	2.34	2.24	2.28
Operating income	8.90	8.87	9.46
Interest expense, net	0.24	0.23	0.19
Income before income taxes	8.66	8.64	9.27
Income tax expense	1.93	1.91	3.45
Net income	6.73 %	6.73 %	5.82 %

^(a) Our gross margin amounts may not be comparable to those of other retailers since some retailers include all of the costs related to their distribution facility network in cost of merchandise sold and others (like our Company) exclude a portion of these distribution facility network costs from gross margin and instead include them in selling, general, and administrative expenses; refer to Note 1 – Significant Accounting Policies of the Notes to the Consolidated Financial Statements, included in Item 8 Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Fiscal 2019 Compared to Fiscal 2018

Net sales increased 5.6% to \$8.35 billion in fiscal 2019 from \$7.91 billion in fiscal 2018. Comparable store sales for fiscal 2019 were \$8.13 billion, a 2.7% increase over fiscal 2018. This compares to a 5.1% comparable store sales increase in the prior year. The comparable store average ticket increased 2.4% and comparable store transaction count increased 0.3% for fiscal 2019, as compared to an increase of 2.8% and 2.2% in fiscal 2018, respectively.

Comparable store metrics are calculated on an annual basis using sales generated from all stores open at least one year and all online sales, excluding certain adjustments to net sales. Stores closed during the year are removed from our comparable store metrics calculations. Stores relocated during the years being compared are not removed from our comparable store metrics. If the effect of relocated stores on our comparable store metrics becomes material, we would remove relocated stores from the calculations.

All geographic regions of the Company had positive comparable store sales growth. The growth in comparable store sales was led by strength in everyday merchandise, including consumable, usable, and edible (“C.U.E.”) products throughout the year as well as growth in seasonal merchandise categories. The growth in seasonal merchandise was driven from solid demand throughout the first three fiscal quarters of the year; however, the fourth fiscal quarter experienced weakness in sales of cold-weather seasonal and holiday discretionary products primarily as a result of unseasonably warm weather across much of the country and six fewer selling days between Thanksgiving and Christmas compared to last year.

In addition to comparable store sales growth in fiscal 2019, sales from stores opened less than one year were \$237.6 million in fiscal 2019, which represented 3.0 percentage points of the 5.6% increase over fiscal 2018 net sales. Sales from stores opened less than one year were \$300.5 million in fiscal 2018, which represented 4.1 percentage points of the 9.0% increase over fiscal 2017 net sales.

The following table summarizes our store growth during fiscal 2019 and 2018:

Store Count Information:	Fiscal Year	
	2019	2018
<i>Tractor Supply</i>		
Beginning of period	1,765	1,685
New stores opened	80	80
Stores closed	(1)	—
End of period	1,844	1,765
<i>Petsense</i>		
Beginning of period	175	168
New stores opened	8	18
Stores closed	(3)	(11)
End of period	180	175
Consolidated end of period	2,024	1,940
Stores relocated	2	4

The following table indicates the percentage of net sales represented by each of our major product categories during fiscal 2019 and 2018:

Product Category:	Percent of Net Sales	
	Fiscal Year	
	2019	2018
Livestock and Pet	47 %	47 %
Hardware, Tools and Truck	21	22
Seasonal, Gift and Toy Products	20	19
Clothing and Footwear	8	8
Agriculture	4	4
Total	100 %	100 %

Gross profit increased 6.3% to \$2.87 billion in fiscal 2019 compared to \$2.70 billion in fiscal 2018. As a percent of net sales, gross margin increased 22 basis points to 34.38% for fiscal 2019 compared to 34.16% for fiscal 2018. The increase in gross margin resulted primarily from strength in the Company's price management program and, to a lesser extent, improvements in freight expense as a percent of net sales in the second half of the year.

Total selling, general and administrative (“SG&A”) expenses, including depreciation and amortization, increased 6.4% to \$2.13 billion in fiscal 2019 from \$2.00 billion in fiscal 2018. SG&A expenses, as a percent of net sales, increased 19 basis points to 25.48% in fiscal 2019 from 25.29% in fiscal 2018. SG&A expenses increased as a percentage of net sales due principally to incremental costs associated with a new distribution facility in Frankfort, New York, and, to a lesser extent, investment in store team member wages. These SG&A increases were partially offset by lower year-over-year incentive compensation as a percent of net sales, as well as leverage in occupancy and other costs from the increase in comparable store sales. SG&A expenses were also negatively impacted in fiscal 2019 by approximately \$2.9 million related to an executive transition agreement.

Our effective income tax rate increased to 22.3% for fiscal 2019 compared to 22.1% in fiscal 2018. The primary cause of the increase in the Company's effective income tax rate was a reduction in state investment credits.

Net income in fiscal 2019 was \$562.4 million, or \$4.66 per diluted share, compared to \$532.4 million, or \$4.31 per diluted share, in fiscal 2018. Excluding the after-tax impact of an executive transition agreement in fiscal 2019 of approximately \$2.3 million, or \$0.02 per diluted share, adjusted net income for fiscal 2019 was \$564.7 million, or \$4.68 per diluted share. Adjusted net income is a non-GAAP measure which has been provided in order to enhance comparability for the periods presented.

During fiscal 2019, we repurchased approximately 5.4 million shares of the Company's common stock at a total cost of \$533.3 million as part of our share repurchase program. In fiscal 2018, we repurchased approximately 5.0 million shares at a total cost of \$349.8 million.

Fiscal 2018 Compared to Fiscal 2017

Net sales increased 9.0% to \$7.91 billion in fiscal 2018 from \$7.26 billion in fiscal 2017. Comparable store sales for fiscal 2018 were \$7.63 billion, a 5.1% increase over fiscal 2017. This compares to a 2.7% comparable store sales increase in the prior year. The comparable store transaction count increased 2.2% and comparable store average ticket increased 2.8% for fiscal 2018, as compared to an increase of 2.2% and 0.5% in fiscal 2017, respectively.

Comparable store metrics are calculated on an annual basis using sales generated from all stores open at least one year and all online sales, excluding certain adjustments to net sales. Stores closed during the year are removed from our comparable store metrics calculations. Stores relocated during the years being compared are not removed from our comparable store metrics. If the effect of relocated stores on our comparable store metrics becomes material, we would remove relocated stores from the calculations. Acquired Petsense stores are considered comparable beginning in the fourth quarter of fiscal 2017.

The comparable store sales increase was broad-based across all merchandise categories and all geographic regions. The growth in comparable store sales was led by strength in everyday merchandise, including C.U.E. products, along with strong demand for seasonal merchandise in each quarter of the year.

In addition to comparable store sales growth in fiscal 2018, sales from stores opened less than one year were \$300.5 million in fiscal 2018, which represented 4.1 percentage points of the 9.0% increase over fiscal 2017 net sales. Sales from stores opened less than one year, including acquired Petsense stores, were \$405.0 million in fiscal 2017, which represented 6.0 percentage points of the 7.0% increase over fiscal 2016 net sales.

The following table summarizes our store growth during fiscal 2018 and 2017:

Store Count Information:	Fiscal Year	
	2018	2017
<i>Tractor Supply</i>		
Beginning of period	1,685	1,595
New stores opened	80	101
Stores closed	—	(11)
End of period	1,765	1,685
<i>Petsense</i>		
Beginning of period	168	143
New stores opened	18	25
Stores closed	(11)	—
End of period	175	168
Consolidated end of period	1,940	1,853
Stores relocated	4	3

The following table indicates the percentage of net sales represented by each of our major product categories during fiscal 2018 and 2017:

Product Category:	Percent of Net Sales	
	Fiscal Year	
	2018	2017
Livestock and Pet	47 %	47 %
Hardware, Tools and Truck	22	22
Seasonal, Gift and Toy Products	19	19
Clothing and Footwear	8	8
Agriculture	4	4
Total	100 %	100 %

Gross profit increased 8.4% to \$2.70 billion in fiscal 2018 compared to \$2.49 billion in fiscal 2017. As a percent of net sales, gross margin decreased 18 basis points to 34.16% for fiscal 2018 compared to 34.34% for fiscal 2017. The decline in gross margin resulted primarily from an increase in freight expense driven by higher carrier rates and increased diesel fuel prices as well as a negative impact from a mix shift of products sold during the fourth quarter, partially offset by strength in the Company's price management program and strong sell through of seasonal merchandise throughout the year.

Total SG&A expenses, including depreciation and amortization, increased 10.8% to \$2.00 billion in fiscal 2018 from \$1.81 billion in fiscal 2017. SG&A expenses, as a percent of net sales, increased 41 basis points to 25.29% in fiscal 2018 from 24.88% in fiscal 2017. SG&A expenses increased as a percentage of net sales due principally to higher incentive compensation from the strong year-over-year growth in comparable store sales, along with planned investments in infrastructure, technology, and team member wages at both the stores and distribution centers, to support the Company's long-term strategic growth initiatives. These SG&A increases as a percent of net sales were partially offset by leverage in occupancy and other costs from the increase in comparable store sales.

Our effective income tax rate decreased to 22.1% for fiscal 2018 compared to 37.2% in fiscal 2017. The decrease in the effective income tax rate was primarily related to the U.S. Tax Cuts and Jobs Act (the "TCJA") that was signed into law in December 2017 which made broad and complex changes to the U.S. tax code including, but not limited to, a reduction of the federal income tax rate from 35% to 21% for years beginning after December 31, 2017. To a lesser extent, the effective income tax rate in fiscal 2018 also incrementally benefited from state investment credits and share-based compensation. The tax legislation also increased the effective income tax rate in fiscal 2017 due to the revaluation of the Company's existing deferred tax balances at the lower federal income tax rate.

Net income in fiscal 2018 was \$532.4 million, or \$4.31 per diluted share, compared to \$422.6 million, or \$3.30 per diluted share, in fiscal 2017. Excluding the impact of the revaluation of the Company's net deferred tax asset in fiscal 2017 resulting in a one-time, non-cash charge of approximately \$4.9 million, or \$0.03 per diluted share, adjusted net income for fiscal 2017 was \$427.5 million, or \$3.33 per diluted share. Adjusted net income is a non-GAAP measure which has been provided in order to enhance comparability for the periods presented.

During fiscal 2018, we repurchased approximately 5.0 million shares of the Company's common stock at a total cost of \$349.8 million as part of our share repurchase program. In fiscal 2017, we repurchased approximately 5.9 million shares at a total cost of \$369.4 million.

Liquidity and Capital Resources

In addition to normal operating expenses, our primary ongoing cash requirements are for new store expansion, remodeling and relocation programs, distribution facility capacity and improvements, information technology, inventory purchases, repayment of existing borrowings under our debt facilities, share repurchases, cash dividends, and selective acquisitions as opportunities arise.

Our primary ongoing sources of liquidity are existing cash balances, cash provided from operations, remaining funds available under our debt facilities, operating and finance leases, and normal trade credit. Our inventory and accounts payable levels typically build in the first and third fiscal quarters to support the higher sales volume of the spring and cold-weather selling seasons, respectively.

We believe that our existing cash balances, expected cash flow from future operations, funds available under our debt facilities, operating and finance leases, and normal trade credit will be sufficient to fund our operations and our capital expenditure needs, including new store openings, store acquisitions, relocations and renovations, and distribution facility capacity, through the end of fiscal 2020.

Working Capital

At December 28, 2019, the Company had working capital of \$540.3 million, which decreased \$316.0 million from 2018. The shifts in working capital were attributable to changes in the following components of current assets and current liabilities (in millions):

	December 28, 2019	December 29, 2018	Variance
Current assets:			
Cash and cash equivalents	\$ 84.2	\$ 86.3	\$ (2.1)
Inventories	1,602.8	1,589.5	13.3
Prepaid expenses and other current assets	100.9	114.5	(13.6)
Income taxes receivable	—	4.1	(4.1)
Total current assets	1,787.9	1,794.4	(6.5)
Current liabilities:			
Accounts payable	643.0	620.0	23.0
Accrued employee compensation	39.8	54.0	(14.2)
Other accrued expenses	247.7	232.4	15.3
Current portion of long-term debt	30.0	26.3	3.7
Current portion of finance lease obligations	4.0	3.6	0.4
Current portion of operating lease obligations	277.1	—	277.1
Income taxes payable	6.0	1.8	4.2
Total current liabilities	1,247.6	938.1	309.5
Working capital	\$ 540.3	\$ 856.3	\$ (316.0)

In comparison to December 29, 2018, working capital as of December 28, 2019 was impacted most significantly by the change in operating lease liabilities due to the adoption of the new lease accounting standard under ASC 842. No other changes in our working capital were significant as increases in inventory for new store growth were offset by a slight reduction in average inventory per store.

Debt

The following table summarizes the Company's outstanding debt as of the dates indicated (in millions):

	December 28, 2019	December 29, 2018
Senior Notes	\$ 150.0	\$ 150.0
Senior Credit Facility:		
February 2016 Term Loan	145.0	165.0
June 2017 Term Loan	87.5	93.8
Revolving credit loans	15.0	—
Total outstanding borrowings	397.5	408.8
Less: unamortized debt issuance costs	(1.0)	(1.4)
Total debt	396.5	407.4
Less: current portion of long-term debt	(30.0)	(26.3)
Long-term debt	\$ 366.5	\$ 381.1
Outstanding letters of credit	\$ 32.0	\$ 33.5

For additional information about the Company's debt and credit facilities, refer to Note 4 to the Consolidated Financial Statements. As further described in Note 5 to the Consolidated Financial Statements, the Company has entered into interest rate swap agreements in order to hedge our exposure to variable rate interest payments associated with each of the term loans under the Senior Credit Facility.

Sources and Uses of Cash

Our primary source of liquidity is cash provided by operations and funds available under our debt facilities. Principal uses of cash for investing activities are capital expenditures while principal uses of cash for financing activities are repurchase of the Company's common stock and cash dividends paid to stockholders.

The following table presents a summary of cash flows provided by or used in operating, investing, and financing activities for fiscal years 2019, 2018, and 2017 (in millions):

	Fiscal Year		
	2019 (52 weeks)	2018 (52 weeks)	2017 (52 weeks)
Net cash provided by operating activities	\$ 811.7	\$ 694.4	\$ 631.5
Net cash used in investing activities	(215.0)	(276.3)	(238.0)
Net cash used in financing activities	(598.8)	(440.9)	(338.3)
Net (decrease) increase in cash and cash equivalents	<u>\$ (2.1)</u>	<u>\$ (22.8)</u>	<u>\$ 55.2</u>

Operating Activities

Operating activities provided net cash of \$811.7 million, \$694.4 million, and \$631.5 million in fiscal 2019, 2018, and 2017, respectively. The \$117.3 million increase in net cash provided by operating activities in fiscal 2019, compared to fiscal 2018, was due to changes in the following (in millions):

	Fiscal Year		
	2019 (52 weeks)	2018 (52 weeks)	Variance
Net income	\$ 562.4	\$ 532.4	\$ 30.0
Depreciation and amortization	196.0	177.4	18.6
Share-based compensation expense	31.1	28.9	2.2
Deferred income taxes	6.8	11.9	(5.1)
Inventories and accounts payable	9.8	(92.9)	102.7
Prepaid expenses and other current assets	13.6	(26.2)	39.8
Accrued expenses	(3.9)	58.8	(62.7)
Income taxes	8.3	(8.4)	16.7
Other, net	(12.4)	12.5	(24.9)
Net cash provided by operating activities	<u>\$ 811.7</u>	<u>\$ 694.4</u>	<u>\$ 117.3</u>

The \$117.3 million increase in net cash provided by operating activities in fiscal 2019, compared to fiscal 2018, is primarily driven by the fluctuation in our inventory, net of accounts payable, as a result of a slight decrease in our average inventory per store based on selling trends year-over-year. The increase in net cash provided by operating activities was also affected to a lesser extent by incremental profitability from Company growth and the net impact of changes in our operating assets and liabilities which fluctuated due primarily to the timing of payments.

The \$62.9 million increase in net cash provided by operating activities in fiscal 2018, as compared to fiscal 2017, was due to changes in the following (in millions):

	Fiscal Year		
	2018 (52 weeks)	2017 (52 weeks)	Variance
Net income	\$ 532.4	\$ 422.6	\$ 109.8
Depreciation and amortization	177.4	165.8	11.6
Share-based compensation expense	28.9	29.2	(0.3)
Deferred income taxes	11.9	26.7	(14.8)
Inventories and accounts payable	(92.9)	(26.5)	(66.4)
Prepaid expenses and other current assets	(26.2)	2.3	(28.5)
Accrued expenses	58.8	(3.9)	62.7
Income taxes	(8.4)	4.2	(12.6)
Other, net	12.5	11.1	1.4
Net cash provided by operating activities	<u>\$ 694.4</u>	<u>\$ 631.5</u>	<u>\$ 62.9</u>

The \$62.9 million increase in net cash provided by operating activities in fiscal 2018, compared with fiscal 2017, primarily reflects incremental profitability, partially offset by the increase in inventory, net of accounts payable, to support new store growth and the net impact of changes in our operating assets and liabilities which fluctuated due primarily to new store growth and the timing of payments.

Investing Activities

Investing activities used cash of \$215.0 million, \$276.3 million, and \$238.0 million in fiscal 2019, 2018, and 2017, respectively. Cash flows from investing activities in the years presented are primarily composed of capital expenditures. Capital expenditures for fiscal 2019, 2018, and 2017 were as follows (in millions):

	Fiscal Year		
	2019 (52 weeks)	2018 (52 weeks)	2017 (52 weeks)
Information technology	\$ 89.3	\$ 86.7	\$ 82.1
New and relocated stores and stores not yet opened	59.3	68.0	79.3
Existing stores	45.5	41.5	43.0
Distribution center capacity and improvements	19.7	82.0	45.8
Corporate and other	3.7	0.3	0.2
Total capital expenditures	<u>\$ 217.5</u>	<u>\$ 278.5</u>	<u>\$ 250.4</u>

The sustained levels of spending on information technology represents continued support of our store growth and our omni-channel initiatives, as well as improvements in security and compliance, enhancements to our customer relationship management program, and other strategic initiatives.

The above table reflects an investment in 80 new Tractor Supply stores, eight new Petsense stores, and two store relocations during fiscal 2019. In fiscal 2018, we opened 80 new Tractor Supply stores, 18 new Petsense stores, and had four store relocations. In fiscal 2017, we opened 101 new Tractor Supply stores and 25 Petsense stores and had three store relocations. Spending on existing stores principally reflects routine refresh activity.

Spending for distribution center capacity and improvements decreased in fiscal 2019 compared to fiscal 2018 and 2017 related to the completion of construction of the new northeast distribution center in Frankfort, New York, and the expansion of our distribution center in Waverly, Nebraska. The new northeast distribution center in Frankfort, New York was completed and began shipping merchandise to our stores in the first quarter of fiscal 2019. The expansion of the Waverly, Nebraska distribution center was completed during fiscal 2018.

Our projected capital expenditures for fiscal 2020 principally include a plan to open approximately 80 new Tractor Supply stores and 10 to 15 new Petsense stores, continued improvements in technology and infrastructure at our existing stores, and ongoing investments to enhance our digital and omni-channel capabilities to better serve our customers.

Financing Activities

Financing activities used cash of \$598.8 million, \$440.9 million, and \$338.3 million in fiscal 2019, 2018, and 2017, respectively. The \$157.9 million increase in net cash used in financing activities in fiscal 2019, compared to fiscal 2018, was due to changes in the following (in millions):

	Fiscal Year		Variance
	2019 (52 weeks)	2018 (52 weeks)	
Net borrowings and repayments under debt facilities	\$ (11.3)	\$ (18.8)	\$ 7.5
Repurchase of common stock	(533.3)	(349.8)	(183.5)
Net proceeds from issuance of common stock	116.0	79.6	36.4
Cash dividends paid to stockholders	(162.7)	(147.1)	(15.6)
Other, net	(7.5)	(4.8)	(2.7)
Net cash used in financing activities	<u>\$ (598.8)</u>	<u>\$ (440.9)</u>	<u>\$ (157.9)</u>

The increase in net cash used in financing activities in fiscal 2019, compared to fiscal 2018, principally reflects an increase in repurchases of common stock and, to a lesser extent, increased quarterly cash dividends, partially offset by an increase in net proceeds from the issuance of common stock associated with the exercise of share-based compensation awards.

The \$102.6 million increase in net cash used in financing activities in fiscal 2018, compared to fiscal 2017, was due to changes in the following (in millions):

	Fiscal Year		Variance
	2018 (52 weeks)	2017 (52 weeks)	
Net borrowings and repayments under debt facilities	\$ (18.8)	\$ 152.5	\$ (171.3)
Repurchase of common stock	(349.8)	(369.4)	19.6
Net proceeds from issuance of common stock	79.6	16.3	63.3
Cash dividends paid to stockholders	(147.1)	(133.8)	(13.3)
Other, net	(4.8)	(3.9)	(0.9)
Net cash used in financing activities	<u>\$ (440.9)</u>	<u>\$ (338.3)</u>	<u>\$ (102.6)</u>

The increase in net cash used in financing activities in fiscal 2018, as compared to fiscal 2017, is largely due to a decrease in borrowings, net of repayments, under our debt facilities, partially offset by an increase in proceeds from the issuance of common stock associated with the exercise of share-based compensation awards.

Repurchase of Common Stock

The Company's Board of Directors has authorized common stock repurchases under a share repurchase program of up to \$4.5 billion, exclusive of any fees, commissions or other expenses related to such repurchases. The repurchases may be made from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased under the program will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability, and other market conditions. Repurchased shares are accounted for at cost and will be held in treasury for future issuance. The program may be limited or terminated at any time without prior notice.

We repurchased approximately 5.4 million, 5.0 million, and 5.9 million shares of common stock under the share repurchase program at a total cost of \$533.3 million, \$349.8 million, and \$369.4 million in fiscal 2019, 2018, and 2017, respectively. As of December 28, 2019, the Company had remaining authorization under the share repurchase program of \$1.49 billion, exclusive of any fees, commissions, or other expenses.

Cash Dividends Paid to Stockholders

We paid cash dividends totaling \$162.7 million, \$147.1 million, and \$133.8 million in fiscal 2019, 2018, and 2017, respectively. In fiscal 2019, we declared and paid cash dividends to stockholders of \$1.36 per common share outstanding as compared to \$1.20 and \$1.05 per common share outstanding in fiscal 2018 and fiscal 2017, respectively. These payments reflect an increase in the quarterly dividend in the second quarter of fiscal 2019 to \$0.35 per share from \$0.31 per share and an increase in the quarterly dividend in the second quarter of fiscal 2018 from \$0.27 per share.

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

Significant Contractual Obligations and Commercial Commitments

The following table reflects our future obligations and commitments as of December 28, 2019 (in thousands):

	Payment Due by Period				
	Total	2020	2021-2022	2023-2024	Thereafter
Operating leases ^{(a) (b)}	\$ 2,786,223	\$ 369,079	\$ 677,435	\$ 570,038	\$ 1,169,671
Finance leases ^(b)	44,638	5,663	10,324	6,833	21,818
Long-term debt ^(c)	461,162	55,421	218,957	11,100	175,684
	<u>\$ 3,292,023</u>	<u>\$ 430,163</u>	<u>\$ 906,716</u>	<u>\$ 587,971</u>	<u>\$ 1,367,173</u>

^(a) Operating lease payments exclude \$212.8 million of legally binding minimum lease payments for leases signed, but not yet commenced.

^(b) Operating and finance lease obligations both include related interest.

^(c) Long-term debt obligations include an estimate of related interest after consideration of the interest rate swap agreements. See Notes 4 and 5 to the Consolidated Financial Statements for additional information regarding our interest rates.

At December 28, 2019, there were \$32.0 million outstanding letters of credit under the 2016 Senior Credit Facility.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements are limited to lease agreements signed but not yet commenced and outstanding letters of credit. The balances for these arrangements are previously discussed. Letters of credit allow us to purchase inventory, primarily sourced overseas, in a timely manner and support certain risk management programs.

New Accounting Pronouncements

The Company adopted new lease accounting guidance in the first quarter of fiscal 2019 which had a material impact on our Consolidated Balance Sheets and related disclosures. For additional information, including the required disclosures, related to the impact of adopting this new accounting guidance, see Note 1, Note 6, and Note 14 to the Consolidated Financial Statements.

Refer to Note 14 to the Consolidated Financial Statements for recently adopted accounting pronouncements and recently issued pronouncements not yet adopted as of December 28, 2019.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to interest rate changes, primarily as a result of borrowings under our 2016 Senior Credit Facility (as discussed in Note 4 to the Consolidated Financial Statements), which bear interest based on variable rates.

As discussed in Note 5 to the Consolidated Financial Statements, we entered into interest rate swap agreements which are intended to mitigate interest rate risk associated with future changes in interest rates for the term loan borrowings under the 2016 Senior Credit Facility. As a result of the interest rate swaps, our exposure to interest rate volatility is minimized. The interest rate swap agreements have been executed for risk management purposes and are not held for trading purposes.

A 1% change in interest rates on our variable rate debt in excess of that amount covered by the interest rate swaps would have affected interest expense by approximately \$1.9 million, \$1.6 million, and \$2.1 million in fiscal 2019, 2018, and 2017, respectively. Based on the amount of outstanding variable rate debt as of December 28, 2019, excluding those borrowings for which we have interest rate swaps, a 1% change in interest rates would not result in any material increase in our interest expense on a prospective basis.

Purchase Price Volatility

Although we cannot determine the full effect of inflation and deflation on our operations, we believe our sales and results of operations are affected by both. We are subject to market risk with respect to the pricing of certain products and services, which include, among other items, grain, corn, steel, petroleum, cotton, and other commodities, as well as duties, tariffs, diesel fuel, and transportation services. Therefore, we may experience both inflationary and deflationary pressure on product cost, which may impact consumer demand and, as a result, sales and gross margin. Our strategy is to reduce or mitigate the effects of purchase price volatility, principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases, adjusting retail prices, and selectively buying from the most competitive vendors without sacrificing quality.

Item 8. Financial Statements and Supplementary Data

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TRACTOR SUPPLY COMPANY

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 28, 2019. In making this assessment, management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on this assessment, management believes that, as of December 28, 2019, the Company's internal control over financial reporting is effective based on those criteria.

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

/s/ Harry A. Lawton III

Harry A. Lawton III
President and Chief Executive Officer

February 20, 2020

/s/ Kurt D. Barton

Kurt D. Barton
Executive Vice President -
Chief Financial Officer and Treasurer

February 20, 2020

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Tractor Supply Company

Opinion on the Internal Control Over Financial Reporting

We have audited Tractor Supply Company's internal control over financial reporting as of December 28, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Tractor Supply Company (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 28, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Consolidated Balance Sheets of Tractor Supply Company as of December 28, 2019 and December 29, 2018, and the related Consolidated Statements of Income, Comprehensive Income, Stockholders' Equity, and Cash Flows for each of the three fiscal years in the period ended December 28, 2019, and the related notes and our report dated February 20, 2020, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 20, 2020

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Tractor Supply Company

Opinion on the Financial Statements

We have audited the accompanying Consolidated Balance Sheets of Tractor Supply Company (the Company) as of December 28, 2019 and December 29, 2018, the related Consolidated Statements of Income, Comprehensive Income, Stockholders' Equity, and Cash Flows for each of the three fiscal years in the period ended December 28, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 28, 2019 and December 29, 2018, and the results of its operations and its cash flows for each of the three fiscal years in the period ended December 28, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 28, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2020, expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Note 1, Note 6, and Note 14 to the consolidated financial statements, the Company changed its method of accounting for leases in fiscal 2019 due to the adoption of Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)". See below for discussion of our related critical audit matter.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Estimate of Workers' Compensation and General Liability Self-Insurance Reserves

Description of the Matter

At December 28, 2019, the Company's net reserves for workers' compensation and general liability self-insurance risks were \$64.6 million. As discussed in Note 1 of the consolidated financial statements, the Company retains a significant portion of risk for its workers' compensation and general liability exposures. Accordingly, provisions are recorded based upon periodic estimates of such losses, as determined by management. The future claim costs for the workers' compensation and general liability exposures are estimated using actuarial methods that consider assumptions for a number of factors including, but not limited to, historical claims experience, loss development factors, and severity factors.

Auditing management's estimate of the recorded workers' compensation and general liability self-insurance reserves was complex and judgmental due to the significant assumptions and judgments required by management in projecting the exposure on incurred claims that remain unresolved, including those which have not yet been reported to the Company.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's accounting for self-insurance exposures. For example, we tested controls over the appropriateness of management's review of the significant assumptions described above, including the completeness and accuracy of the underlying data, as well as management's review of the actuarial calculations.

To test the Company's estimate of the self-insurance reserves, we performed audit procedures that included, among others, assessing the actuarial valuation methodologies utilized by management, testing the significant assumptions described above, testing the related underlying data used by the Company in its evaluation for completeness and accuracy, and testing the mathematical accuracy of the calculations. Our audit procedures also included, among others, comparing the significant assumptions used by management to industry accepted actuarial assumptions and reassessing the accuracy of management's historical estimates utilized in prior period evaluations. We involved our actuarial valuation specialists to assist in assessing the valuation methodologies and significant assumptions noted above and to develop an independent range of estimates for the insurance reserves which were then compared to management's estimates.

Valuation of Goodwill

Description of the Matter

At December 28, 2019, the Company had \$93.2 million in goodwill, which was assigned at the time of the respective acquisitions. As discussed in Note 1 and Note 3 of the consolidated financial statements, goodwill is qualitatively or quantitatively tested for impairment at the reporting unit level at least annually, during the fourth quarter, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The quantitative evaluation involves the comparison of the carrying value of the reporting unit to its fair value, as determined by management.

Auditing management's annual goodwill impairment analysis was complex due to the significant estimation required by management in determining the fair value of a reporting unit. In particular, the fair value estimates are sensitive to significant assumptions such as projected financial information (revenue growth rates, profit margins, tax rates, and capital expenditures) and the discount rate, which are affected by expectations about future market or economic conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's goodwill impairment review process, including controls over management's review of the significant assumptions described above, as well as the review of the fair value methodologies utilized. For example, we tested controls over management's identification of reporting units and review of significant assumptions utilized within the fair value model, including the development of the projected financial information and determination of the discount rate.

To test the estimated fair value of a reporting unit, we performed audit procedures that included, among others, involvement of our valuation specialists to assess fair value methodologies, including the significant assumptions discussed above. Specifically, we compared significant assumptions used by management to current industry and economic trends and changes to the Company's business model. As part of this assessment, we also compared the discount rate to rates for hypothetical market participants based on the capital structure of the Company and its related peer group. We assessed the historical accuracy of management's estimates and performed sensitivity analyses of significant assumptions to evaluate the changes in the fair value of a reporting unit that would result from changes in the assumptions, as well as corroborated the estimated fair value by comparing it with peer company trading and transaction multiples. In addition, we tested management's reconciliation of the fair value of the reporting units to the market capitalization of the Company.

Adoption of New Lease Accounting Standard

Description of the Matter

As discussed above and in Note 1, Note 6, and Note 14 to the consolidated financial statements, the Company adopted Topic 842 in the first quarter of fiscal 2019, which resulted in the recognition of operating lease right-of-use assets and liabilities of approximately \$2.08 billion. As part of the adoption, the Company was required to make certain elections and develop assumptions in order to appropriately recognize right-of-use assets and liabilities. In particular, as most of the Company's leases do not provide a determinable implicit rate, the Company developed certain significant assumptions to estimate the incremental borrowing rate (IBR), which was used to calculate the operating lease right-of-use assets and liabilities upon adoption.

Auditing the Company's adoption of Topic 842 was complex as certain aspects of adopting Topic 842 required management to exercise judgment in applying the new standard to its portfolio of lease contracts. In particular, the estimate of the IBR is sensitive to significant assumptions such as determination of a synthetic credit rating and selection of associated benchmark yield curve, reflective of a collateralized obligation.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's accounting for the adoption of Topic 842. For example, we tested controls over management's review of the IBR and significant assumptions noted above.

To test the Company's adoption of Topic 842, we performed audit procedures that included, among others, involving our valuation specialists to assess management's significant assumptions and methodology for determining their synthetic credit rating, assessing the selection of a benchmark yield curve, and evaluating methodologies used to reflect a collateralized borrowing. We also assessed management's development of IBR ranges based on varying lease terms at the date of adoption, including comparing the Company's IBRs to ranges developed independently by our valuation specialists, as well as performing tests of the IBR application to remaining lease payments, with respect to the remaining term of the lease.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2001.
Nashville, Tennessee
February 20, 2020

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

	Fiscal Year		
	2019 (52 weeks)	2018 (52 weeks)	2017 (52 weeks)
Net sales	\$ 8,351,931	\$ 7,911,046	\$ 7,256,382
Cost of merchandise sold	5,480,161	5,208,518	4,764,417
Gross profit	2,871,770	2,702,528	2,491,965
Selling, general and administrative expenses	1,932,572	1,823,440	1,639,749
Depreciation and amortization	195,978	177,351	165,834
Operating income	743,220	701,737	686,382
Interest expense, net	19,843	18,352	13,859
Income before income taxes	723,377	683,385	672,523
Income tax expense	161,023	151,028	249,924
Net income	<u>\$ 562,354</u>	<u>\$ 532,357</u>	<u>\$ 422,599</u>
Net income per share – basic	<u>\$ 4.70</u>	<u>\$ 4.34</u>	<u>\$ 3.31</u>
Net income per share – diluted	<u>\$ 4.66</u>	<u>\$ 4.31</u>	<u>\$ 3.30</u>
Weighted average shares outstanding			
Basic	119,727	122,651	127,588
Diluted	120,743	123,471	128,204
Dividends declared per common share outstanding	<u>\$ 1.36</u>	<u>\$ 1.20</u>	<u>\$ 1.05</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

TRACTOR SUPPLY COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Fiscal Year		
	2019 (52 weeks)	2018 (52 weeks)	2017 (52 weeks)
Net income	\$ 562,354	\$ 532,357	\$ 422,599
Other comprehensive (loss)/income:			
Change in fair value of interest rate swaps, net of taxes	(4,332)	456	1,371
Reclassification of stranded tax effects (ASU 2018-02)	—	—	595
Total other comprehensive (loss)/income	(4,332)	456	1,966
Total comprehensive income	\$ 558,022	\$ 532,813	\$ 424,565

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	December 28, 2019	December 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 84,241	\$ 86,299
Inventories	1,602,781	1,589,542
Prepaid expenses and other current assets	100,865	114,447
Income taxes receivable	—	4,111
Total current assets	1,787,887	1,794,399
Property and equipment, net	1,163,956	1,134,464
Operating lease right-of-use assets	2,188,802	—
Goodwill and other intangible assets	124,492	124,492
Deferred income taxes	—	6,607
Other assets	24,131	25,300
Total assets	\$ 5,289,268	\$ 3,085,262
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 643,036	\$ 619,981
Accrued employee compensation	39,755	54,046
Other accrued expenses	247,690	232,416
Current portion of long-term debt	30,000	26,250
Current portion of finance lease liabilities	4,036	3,646
Current portion of operating lease liabilities	277,099	—
Income taxes payable	5,984	1,768
Total current liabilities	1,247,600	938,107
Long-term debt	366,480	381,100
Finance lease liabilities, less current portion	30,389	29,270
Operating lease liabilities, less current portion	2,001,162	—
Deferred income taxes	153	—
Deferred rent	—	107,038
Other long-term liabilities	76,361	67,927
Total liabilities	3,722,145	1,523,442
Stockholders' equity:		
Preferred stock	—	—
Common stock	1,389	1,375
Additional paid-in capital	966,698	823,413
Treasury stock	(3,013,996)	(2,480,677)
Accumulated other comprehensive income	199	3,814
Retained earnings	3,612,833	3,213,895
Total stockholders' equity	1,567,123	1,561,820
Total liabilities and stockholders' equity	\$ 5,289,268	\$ 3,085,262

Preferred Stock (shares in thousands): \$1.00 par value; 40 shares authorized; no shares were issued or outstanding during any period presented.

Common Stock (shares in thousands): \$0.008 par value; 400,000 shares authorized at all periods presented. 173,608 and 171,887 shares issued; 118,165 and 121,828 shares outstanding at December 28, 2019 and December 29, 2018, respectively.

Treasury Stock (at cost, shares in thousands): 55,443 and 50,059 shares at December 28, 2019 and December 29, 2018, respectively.

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accum. Other Comp. Income	Retained Earnings	Total Stockholders' Equity
	Shares	Dollars					
Stockholders' equity at December 31, 2016	130,795	\$ 1,360	\$ 671,515	\$ (1,761,498)	\$ 1,392	\$ 2,540,449	\$ 1,453,218
Common stock issuance under stock award plans & ESPP	432	3	16,327				16,330
Share-based compensation expense			29,202				29,202
Repurchase of shares to satisfy tax obligations			(816)				(816)
Repurchase of common stock	(5,924)			(369,403)			(369,403)
Cash dividends paid to stockholders						(133,828)	(133,828)
Change in fair value of interest rate swaps, net of taxes					1,371		1,371
Net income						422,599	422,599
Reclassification of stranded tax effects as a result of ASU 2018-02 adoption					595	(595)	—
Stockholders' equity at December 30, 2017	125,303	1,363	716,228	(2,130,901)	3,358	2,828,625	1,418,673
Common stock issuance under stock award plans & ESPP	1,512	12	79,631				79,643
Share-based compensation expense			28,921				28,921
Repurchase of shares to satisfy tax obligations			(1,367)				(1,367)
Repurchase of common stock	(4,987)			(349,776)			(349,776)
Cash dividends paid to stockholders						(147,087)	(147,087)
Change in fair value of interest rate swaps, net of taxes					456		456
Net income						532,357	532,357
Stockholders' equity at December 29, 2018	121,828	1,375	823,413	(2,480,677)	3,814	3,213,895	1,561,820
Common stock issuance under stock award plans & ESPP	1,721	14	115,967				115,981
Share-based compensation expense			31,136				31,136
Repurchase of shares to satisfy tax obligations			(3,818)				(3,818)
Repurchase of common stock	(5,384)			(533,319)			(533,319)
Cash dividends paid to stockholders						(162,699)	(162,699)
Change in fair value of interest rate swaps, net of taxes					(4,332)		(4,332)
Net income						562,354	562,354
Cumulative adjustment as a result of ASU 2017- 12 adoption					717	(717)	—
Stockholders' equity at December 28, 2019	118,165	\$ 1,389	\$ 966,698	\$ (3,013,996)	\$ 199	\$ 3,612,833	\$ 1,567,123

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	Fiscal Year		
	2019 (52 weeks)	2018 (52 weeks)	2017 (52 weeks)
Cash flows from operating activities:			
Net income	\$ 562,354	\$ 532,357	\$ 422,599
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	195,978	177,351	165,834
Gain on disposition of property and equipment	(297)	(567)	460
Share-based compensation expense	31,136	28,921	29,202
Deferred income taxes	6,760	11,887	26,724
Change in assets and liabilities:			
Inventories	(13,239)	(136,334)	(83,552)
Prepaid expenses and other current assets	13,582	(26,195)	2,305
Accounts payable	23,055	43,413	57,046
Accrued employee compensation	(14,291)	22,373	6,427
Other accrued expenses	10,351	36,406	(10,338)
Income taxes	8,327	(8,355)	4,210
Other	(12,000)	13,137	10,533
Net cash provided by operating activities	811,716	694,394	631,450
Cash flows from investing activities:			
Capital expenditures	(217,450)	(278,530)	(250,401)
Proceeds from sale of property and equipment	2,489	2,216	11,220
Acquisition of Petsense, net of cash acquired	—	—	1,225
Net cash used in investing activities	(214,961)	(276,314)	(237,956)
Cash flows from financing activities:			
Borrowings under debt facilities	1,002,000	1,193,500	1,180,000
Repayments under debt facilities	(1,013,250)	(1,212,250)	(1,027,500)
Debt issuance costs	—	(346)	(599)
Principal payments under finance lease liabilities	(3,708)	(3,246)	(2,446)
Repurchase of shares to satisfy tax obligations	(3,818)	(1,367)	(816)
Repurchase of common stock	(533,319)	(349,776)	(369,403)
Net proceeds from issuance of common stock	115,981	79,643	16,330
Cash dividends paid to stockholders	(162,699)	(147,087)	(133,828)
Net cash used in financing activities	(598,813)	(440,929)	(338,262)
Net change in cash and cash equivalents	(2,058)	(22,849)	55,232
Cash and cash equivalents at beginning of year	86,299	109,148	53,916
Cash and cash equivalents at end of year	\$ 84,241	\$ 86,299	\$ 109,148
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 19,146	\$ 18,069	\$ 10,481
Income taxes	144,377	146,918	219,081
Supplemental disclosures of non-cash activities:			
Non-cash accruals for construction in progress	\$ 7,924	\$ 3,001	\$ 8,647
Operating lease assets and liabilities recognized upon adoption of ASC 842	2,084,880	—	—
Increase of operating lease assets and liabilities from new or modified leases	365,233	—	—
Increase of finance lease assets and liabilities from new or modified leases	5,217	—	11,395

The accompanying notes are an integral part of these Consolidated Financial Statements.

TRACTOR SUPPLY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Significant Accounting Policies:

Nature of Business

Founded in 1938, Tractor Supply Company (the “Company” or “we” or “our” or “us”) is the largest rural lifestyle retailer in the United States (“U.S.”). The Company is focused on supplying the needs of recreational farmers, ranchers, and all those who enjoy living the rural lifestyle (which we refer to as the “*Out Here*” lifestyle), as well as tradesmen and small businesses. Stores are located primarily in towns outlying major metropolitan markets and in rural communities. The Company also owns and operates Petsense, LLC (“Petsense”), a small-box pet specialty supply retailer focused on meeting the needs of pet owners, primarily in small and mid-sized communities, and offering a variety of pet products and services. At December 28, 2019, the Company operated a total of 2,024 retail stores in 49 states (1,844 Tractor Supply and Del’s retail stores and 180 Petsense retail stores) and also offered an expanded assortment of products online at [TractorSupply.com](#) and [Petsense.com](#).

Basis of Presentation

In the first quarter of fiscal 2019, the Company adopted lease accounting guidance as discussed in Note 6 and Note 14 to the Consolidated Financial Statements. Adoption of the new lease accounting guidance had a material impact to our Consolidated Balance Sheets and related disclosures, and resulted in the recording of additional right-of-use assets and lease liabilities of approximately \$2.08 billion as of the date of adoption. This guidance was applied using the optional transition method which allowed the Company to not recast comparative financial information but rather recognize a cumulative-effect adjustment to retained earnings as of the effective date in the period of adoption. No adjustment to retained earnings was made as a result of the adoption of this guidance. Consistent with the optional transition method, the financial information in the Consolidated Balance Sheets prior to the adoption of this new lease accounting guidance has not been adjusted and is therefore not comparable to the current period presented. The standard did not materially impact our Consolidated Statements of Income, Comprehensive Income, Stockholders’ Equity, or Cash Flows. For additional information, including the required disclosures, related to the impact of adopting this standard, see Note 6 and Note 14 to the Consolidated Financial Statements.

In the first quarter of fiscal 2019, the Company adopted Accounting Standards Update 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” using the modified retrospective transition method. This method allows for a cumulative effect adjustment to retained earnings, as of the effective date in the period of adoption, for previously recorded amounts of hedge ineffectiveness. Upon adoption of the guidance, we recognized a cumulative-effect adjustment of \$0.7 million from retained earnings to accumulated other comprehensive income. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements and related disclosures. For additional information on the required disclosures related to the impact of adopting this guidance, see Note 5 and Note 14 to the Consolidated Financial Statements.

In the first quarter of fiscal 2018, the Company adopted accounting guidance that allowed for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (the “TCJA”). This guidance was applied retrospectively, which resulted in the reclassification of \$0.6 million from accumulated other comprehensive income to retained earnings in the Consolidated Balance Sheets, Statements of Stockholders’ Equity, and Statements of Comprehensive Income as of and for the fiscal year ended December 30, 2017. No other periods presented were affected by the adoption of this accounting guidance.

Fiscal Year

The Company’s fiscal year includes 52 or 53 weeks and ends on the last Saturday of the calendar year. The fiscal years ended December 28, 2019, December 29, 2018, and December 30, 2017, all consisted of 52 weeks.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

Management Estimates

The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) inherently requires estimates and assumptions by management of the Company that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures. Actual results could differ from those estimates.

Significant estimates and assumptions by management primarily impact the following key financial statement areas:

Inventory Valuation

Inventory Impairment Risk

The Company identifies potentially excess and slow-moving inventory by evaluating turn rates, historical and expected future sales trends, age of merchandise, overall inventory levels, current cost of inventory, and other benchmarks. The Company has established an inventory valuation reserve to recognize the estimated impairment in value (i.e., an inability to realize the full carrying value) based on the Company’s aggregate assessment of these valuation indicators under prevailing market conditions and current merchandising strategies. The Company does not believe its merchandise inventories are subject to significant risk of obsolescence in the near term. However, changes in market conditions or consumer purchasing patterns could result in the need for additional reserves.

Shrinkage

The Company performs physical inventories at least once a year for each store that has been open more than 12 months, and the Company has established a reserve for estimating inventory shrinkage between physical inventory counts. The reserve is established by assessing the chain-wide average shrinkage experience rate, applied to the related periods’ sales volumes. Such assessments are updated on a regular basis for the most recent individual store experiences. The estimated store inventory shrink rate is based on historical experience. The Company believes historical rates are a reasonably accurate reflection of future trends.

Vendor Funding

The Company receives funding from substantially all of its significant merchandise vendors, in support of its business initiatives, through a variety of programs and arrangements, including guaranteed vendor support funds (“vendor support”) and volume-based rebate funds (“volume rebates”). The amounts received are subject to terms of vendor agreements, most of which are “evergreen,” reflecting the on-going relationship with our significant merchandise vendors. Certain of the Company’s agreements, primarily volume rebates, are renegotiated annually, based on expected annual purchases of the vendor’s product. Vendor funding is initially deferred as a reduction of the purchase price of inventory, and then recognized as a reduction of cost of merchandise as the related inventory is sold.

During interim periods, the amount of vendor support and volume rebates are estimated based upon initial commitments and anticipated purchase levels with applicable vendors. The estimated purchase volume (and related vendor funding) is based on the Company’s current knowledge of inventory levels, sales trends and expected customer demand, as well as planned new store openings and relocations. Although the Company believes it can reasonably estimate purchase volume and related volume rebates at interim periods, it is possible that actual year-end results could be different from previously estimated amounts.

Freight

The Company incurs various types of transportation and delivery costs in connection with inventory purchases and distribution. Such costs are included as a component of the overall cost of inventories (on an aggregate basis) and recognized as a component of cost of merchandise sold as the related inventory is sold.

Self-Insurance Reserves

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

The full extent of certain workers' compensation and general liability claims may not become fully determined for several years. Therefore, the Company estimates potential obligations based upon historical claims experience, loss development factors, severity factors, and other actuarial assumptions. Although the Company believes the reserves established for these obligations are reasonably estimated, any significant change in the number of claims or costs associated with claims made under these plans could have a material effect on the Company's financial results. At December 28, 2019, the Company had net insurance reserves for workers' compensation and general liability plans of \$64.6 million compared to \$60.5 million at December 29, 2018.

Impairment of Long-Lived Assets

Long-lived assets, including lease assets, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

When evaluating long-lived assets for potential impairment, the Company first compares the carrying value of the asset or asset group to its estimated undiscounted future cash flows. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The significant assumptions used to determine estimated undiscounted cash flows include cash inflows and outflows directly resulting from the use of those assets in operations, including margin on net sales, payroll and related items, occupancy costs, insurance allocations and other costs to operate a store. If the estimated future cash flows are less than the carrying value of the related asset, the Company calculates an impairment loss. The impairment loss calculation compares the carrying value of the related asset or asset group to its estimated fair value, which may be based on an estimated future cash flow model, market valuation, or other valuation technique, as appropriate. The Company recognizes an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If the Company recognizes an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining estimated useful life of that asset.

No significant impairment charges were recognized in fiscal 2019, 2018, or 2017. Impairment charges, if recognized, are included in selling, general and administrative ("SG&A") expenses in the Consolidated Statements of Income.

Impairment of Indefinite-Lived Intangible Assets

Goodwill and other indefinite-lived intangible assets are evaluated for impairment annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

In accordance with the accounting standards, an entity has the option first to assess qualitative factors to determine whether events and circumstances indicate that it is more likely than not that goodwill or an indefinite-lived intangible asset is impaired. If after such assessment an entity concludes that the asset is not impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the asset using a quantitative impairment test, and if impaired, the associated assets must be written down to fair value.

The quantitative impairment test for goodwill compares the fair value of a reporting unit with the carrying value of its net assets, including goodwill. If the fair value of the reporting unit is less than the carrying value of the reporting unit, an impairment charge would be recorded to the Company's operations, for the amount in which the carrying amount exceeds the reporting unit's fair value. We determine fair values for each reporting unit using the market approach, when available and appropriate, the income approach, or a combination of both. The income approach involves forecasting projected financial information (such as revenue growth rates, profit margins, tax rates, and capital expenditures) and selecting a discount rate that reflects the risk inherent in estimated future cash flows. Under the market approach, the fair value is based on observed market data. If multiple valuation methodologies are used, the results are weighted appropriately.

The quantitative impairment test for other indefinite-lived intangible assets involves comparing the carrying amount of the asset to the sum of the discounted cash flows expected to be generated by the asset. If the implied fair value of the indefinite-lived intangible asset is less than the carrying value, an impairment charge would be recorded to the Company's operations.

No significant impairment charges were recognized in fiscal 2019, 2018, or 2017. Impairment charges, if recognized, are included in SG&A expenses in the Consolidated Statements of Income.

Revenue Recognition and Sales Returns

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

The Company is required to collect certain taxes and fees from customers on behalf of government agencies and remit such collections to the applicable governmental agency on a periodic basis. These taxes and fees are collected from customers at the time of purchase, but are not included in net sales. The Company records a liability upon collection from the customer and relieves the liability when payments are remitted to the applicable governmental agency.

The Company estimates a liability for sales returns based on a rolling average of historical return trends, and the Company believes that its estimate for sales returns is an accurate reflection of future returns associated with past sales. However, as with any estimate, refund activity may vary from estimated amounts. The Company had a liability for sales returns of \$11.9 million and \$11.3 million as of December 28, 2019 and December 29, 2018, respectively.

The Company recognizes revenue when a gift card or merchandise return card is redeemed by the customer and recognizes income when the likelihood of the gift card or merchandise return card being redeemed by the customer is remote (referred to as "breakage"). The gift cards and merchandise return card breakage rate is based upon historical redemption patterns and income is recognized for unredeemed gift cards and merchandise return cards in proportion to those historical redemption patterns. The Company recognized breakage income of \$3.0 million, \$2.6 million, and \$2.4 million in fiscal 2019, 2018, and 2017, respectively.

Cost of Merchandise Sold

Cost of merchandise sold includes the total cost of products sold; freight and duty expenses associated with moving merchandise inventories from vendors to distribution facilities, from distribution facilities to retail stores, from one distribution facility to another, and directly to our customers; tariffs on imported products; vendor support; damaged, junked or defective product; cash discounts from payments to merchandise vendors; and adjustments for shrinkage (physical inventory losses), lower of cost or net realizable value, slow moving product, and excess inventory quantities.

Selling, General and Administrative Expenses

SG&A expenses include payroll and benefit costs for retail, distribution facility, and corporate employees; share-based compensation expenses; occupancy costs of retail, distribution, and corporate facilities; advertising; tender costs, including bank charges and costs associated with credit and debit card interchange fees; outside service fees; and other administrative costs, such as computer maintenance, supplies, travel, and lodging.

Advertising Costs

Advertising costs consist of expenses incurred in connection with digital and social media offerings, newspaper circulars, and customer-targeted direct e-mail and direct mail, as well as limited television, radio, and other limited media channels. Costs are expensed when incurred with the exception of television advertising and circular and direct mail promotions, which are expensed upon first showing. Advertising expenses were approximately \$86.6 million, \$83.4 million, and \$81.3 million for fiscal 2019, 2018, and 2017, respectively. Prepaid advertising costs were approximately \$0.6 million and \$1.3 million as of December 28, 2019, and December 29, 2018, respectively.

Warehousing and Distribution Facility Costs

Costs incurred at the Company's distribution facilities for receiving, warehousing, and preparing product for delivery are expensed as incurred and are included in SG&A expenses in the Consolidated Statements of Income. Because the Company does not include these costs in cost of sales, the Company's gross margin may not be comparable to other retailers that include these costs in the calculation of gross margin. Distribution facility costs including depreciation were approximately \$231.5 million, \$209.7 million, and \$182.1 million for fiscal 2019, 2018, and 2017, respectively.

Pre-Opening Costs

Non-capital expenditures incurred in connection with opening new stores, primarily payroll and rent, are expensed as incurred. Pre-opening costs were approximately \$8.1 million, \$8.5 million, and \$10.8 million for fiscal 2019, 2018, and 2017, respectively.

Share-Based Compensation

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

The Company estimates the fair value of its stock option awards at the date of grant utilizing a *Black-Scholes* option pricing model. The *Black-Scholes* option valuation model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. However, key assumptions used in the *Black-Scholes* model are adjusted to incorporate the unique characteristics of the Company’s stock option awards. Option pricing models and generally accepted valuation techniques require management to make subjective assumptions including expected stock price volatility, expected dividend yield, risk-free interest rate, and expected term. The Company relies on historical volatility trends to estimate future volatility assumptions. The risk-free interest rates used were actual U.S. Treasury Constant Maturity rates for bonds matching the expected term of the option on the date of grant. The expected term of the option on the date of grant was estimated based on the Company’s historical experience for similar options.

In addition to the key assumptions used in the *Black-Scholes* model, the estimated forfeiture rate at the time of valuation (which is based on historical experience for similar options) is a critical assumption, as it reduces expense ratably over the vesting period. The Company adjusts this estimate periodically, based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

The fair value of the Company’s restricted stock units and performance-based restricted share units is the closing stock price of the Company’s common stock the day preceding the grant date, discounted for the expected dividend yield over the term of the award.

The Company believes its estimates are reasonable in the context of historical experience. Future results will depend on, among other matters, levels of share-based compensation granted in the future, actual forfeiture rates, and the timing of option exercises.

Depreciation and Amortization

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

Income Taxes

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

Tax Contingencies

The Company’s income tax returns are periodically audited by U.S. federal and state tax authorities. These audits include questions regarding tax filing positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. At any time, multiple tax years are subject to audit by the various tax authorities. In evaluating the exposures associated with the Company’s various tax filing positions, the Company records a liability for uncertain tax positions taken or expected to be taken in a tax return. A number of years may elapse before a particular matter, for which the Company has established a reserve, is audited and fully resolved or clarified. The Company recognizes the effect of income tax

positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company adjusts its tax contingencies reserve and income tax provision in the period in which actual results of a settlement with tax authorities differs from the established reserve, the statute of limitations expires for the relevant tax authority to examine the tax position or when more information becomes available.

Sales Tax Audit Reserve

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

The Company reviews past audit experience and assessments with applicable states to continually determine if it has potential exposure for non-compliance. Any estimated liability is based on an initial assessment of compliance risk and historical experience with each state. The Company continually reassesses the exposure based on historical audit results, changes in policies, preliminary and final assessments made by state sales tax auditors, and additional documentation that may be provided to reduce the assessment. The reserve for these tax audits can fluctuate depending on numerous factors, including the complexity of agricultural-based exemptions, the ambiguity in state tax regulations, the number of ongoing audits, and the length of time required to settle with the state taxing authorities.

Net Income Per Share

The Company presents both basic and diluted net income per share on the Consolidated Statements of Income. Basic net income per share is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average diluted shares outstanding during the period. Dilutive shares are computed using the treasury stock method for share-based awards. Performance-based restricted share units are included in diluted shares only if the related performance conditions have been considered satisfied as of the end of the reporting period.

Cash and Cash Equivalents

Temporary cash investments, with a maturity of three months or less when purchased, are considered to be cash equivalents. The majority of payments due from banks for customer credit cards are classified as cash and cash equivalents, as they generally settle within 24 - 48 hours.

Sales generated through the Company's private label credit cards are not reflected as accounts receivable. Under an agreement with Citi Cards, a division of Citigroup, consumer and business credit is extended directly to customers by Citigroup. All credit program and related services are performed and controlled directly by Citigroup. Payments due from Citigroup are classified as cash and cash equivalents as they generally settle within 24 - 48 hours.

Fair Value of Financial Instruments

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

The Company's financial instruments consist of cash and cash equivalents, short-term receivables, trade payables, debt instruments, and interest rate swaps. Due to their short-term nature, the carrying values of cash and cash equivalents, short-term receivables, and trade payables approximate current fair value at each balance sheet date. The Company had \$397.5 million and \$408.8 million in borrowings under our debt facilities (as discussed in Note 4) as of December 28, 2019 and December 29, 2018, respectively. Based on current market interest rates (Level 2 inputs), the carrying value of our borrowings under our debt facilities approximates fair value for each period reported. The fair value of the Company's interest rate swaps

is determined based on the present value of expected future cash flows using forward rate curves (a Level 2 input). As described in further detail in Note 5, the fair value of the interest rate swaps, excluding accrued interest, was a net asset of \$0.3 million and \$5.8 million as of December 28, 2019 and December 29, 2018, respectively.

Derivative Financial Instruments

The Company accounts for derivative financial instruments in accordance with applicable accounting standards for such instruments and hedging activities, which require that all derivatives are recorded on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting.

Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge a certain portion of its risk, even though hedge accounting does not apply or the Company elects not to apply the hedge accounting standards.

Inventories

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

Property and Equipment

Property and equipment are initially recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Improvements to leased premises are amortized using the straight-line method over the remaining term of the lease or the useful life of the improvement, whichever is less. The following table summarizes the Company's property and equipment balances and includes the estimated useful lives which are generally applied (in thousands, except estimated useful lives):

	Estimated Useful Lives	December 28, 2019	December 29, 2018
Land		\$ 100,343	\$ 100,767
Buildings and improvements	1 – 35 years	1,242,544	1,110,767
Furniture, fixtures and equipment	5 – 10 years	729,272	645,702
Computer software and hardware	2 – 7 years	440,222	349,500
Construction in progress		39,110	130,812
Property and equipment, gross		2,551,491	2,337,548
Accumulated depreciation and amortization		(1,387,535)	(1,203,084)
Property and equipment, net		<u>\$ 1,163,956</u>	<u>\$ 1,134,464</u>

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

The lease payments are equal to the amount of the payments on the bonds. The tax abatement period extends through the term of the lease, which coincides with the maturity date of the bonds. At any time, the Company has the option to purchase the real property by paying off the bonds, plus \$1. The terms and amounts authorized and drawn under each industrial revenue bond agreement are outlined as follows, as of December 28, 2019:

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

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

Capitalized Software Costs

The Company capitalizes certain costs related to the acquisition and development of software and amortizes these costs using the straight-line method over the estimated useful life of the software, which is two to seven years. Computer software consists of software developed for internal-use and third-party software purchased for internal-use. A subsequent addition, modification or upgrade to internal-use software is capitalized to the extent that it enhances the software's functionality or extends its useful life. These costs are included in computer software and hardware in the accompanying Consolidated Balance Sheets. Certain software costs not meeting the criteria for capitalization are expensed as incurred.

Store Closing Costs

The Company regularly evaluates the performance of its stores and periodically closes those stores that are underperforming. The Company records a liability for costs associated with an exit or disposal activity when the liability is incurred, usually in the period the store closes. Store closing costs were not significant to the results of operations for any of the fiscal years presented.

Leases

Operating lease assets and liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent our right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment, if any, of operating lease assets. To determine the present value of lease payments not yet paid, we estimate incremental borrowing rates corresponding to the reasonably certain lease term. As substantially all of our leases do not provide an implicit rate, we estimate our collateralized incremental borrowing rate based upon a synthetic credit rating and yield curve analysis at commencement or modification date in determining the present value of lease payments.

Assets under finance leases are amortized in accordance with the Company's normal depreciation policy for owned assets or over the lease term, if shorter, and the related charge to operations is included in depreciation expense in the Consolidated Statements of Income.

Note 2 – Share-Based Compensation:

Share-based compensation includes stock options, restricted stock units, performance-based restricted share units, and certain transactions under the Company's ESPP. Share-based compensation expense is recognized based on the grant date fair value of all stock options, restricted stock units, and performance-based restricted share units plus a 15% discount on shares purchased by employees as a part of the ESPP. The discount under the ESPP represents the difference between the purchase date market value and the employee's purchase price.

There were no significant modifications to the Company's share-based compensation plans since the adoption of the 2018 Omnibus Incentive Plan (the "2018 Plan") on May 10, 2018, which replaced the 2009 Stock Incentive Plan. Following the adoption of the 2018 Plan, no further grants may be made under the 2009 Stock Incentive Plan.

Under our share-based compensation plans, awards may be granted to officers, non-employee directors, other employees, and independent contractors. The per share exercise price of options granted shall not be less than the fair market value of the stock on the date of grant and such awards will expire no later than ten years from the date of grant. Vesting of awards commences at various anniversary dates following the dates of each grant and certain awards will vest only upon established performance conditions being met. At December 28, 2019, the Company had approximately 11.8 million shares available for future equity awards under the Company's 2018 Plan.

Share-based compensation expense, including changes in expense for modifications, if any, of awards, was \$31.1 million, \$28.9 million, and \$29.2 million for fiscal 2019, 2018, and 2017, respectively.

Stock Options

The fair value is separately estimated for each option grant. The fair value of each option is recognized as compensation expense ratably over the vesting period. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying a *Black-Scholes* pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The ranges of key assumptions used in determining the fair value of options granted during fiscal 2019, 2018, and 2017, as well as a summary of the methodology applied to develop each assumption, are as follows:

	Fiscal Year		
	2019	2018	2017
Expected price volatility	26.4 - 27.6%	26.4 - 27.0%	25.1 - 26.0%
Risk-free interest rate	1.6 - 2.5%	2.5 - 3.0%	1.7 - 1.9%
Weighted average expected term (in years)	4.5	4.5	4.4
Forfeiture rate	7.3 %	7.3 %	7.2 %
Dividend yield	1.4 %	1.6 %	1.3 %

Expected Price Volatility — This is a measure of the amount by which a price has fluctuated or is expected to fluctuate. The Company applies a historical volatility rate. To calculate historical changes in market value, the Company uses daily market value changes from the date of grant over a past period generally representative of the expected life of the options to determine volatility. The Company believes the use of historical price volatility provides an appropriate indicator of future volatility. An increase in the expected volatility will increase compensation expense.

Risk-Free Interest Rate — This is the U.S. Treasury Constant Maturity rate over a term equal to the expected term of the option. An increase in the risk-free interest rate will increase compensation expense.

Weighted Average Expected Term — This is the period of time over which the options granted are expected to remain outstanding and is based on historical experience. Options granted generally have a maximum term of ten years. An increase in the expected term will increase compensation expense.

Forfeiture Rate — This is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. This estimate is based on historical experience. An increase in the forfeiture rate will decrease compensation expense.

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

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

Stock Option Activity	Options	Weighted Average Exercise Price	Weighted Average Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 29, 2018	4,053,386	\$ 72.49		7.0	\$ 46,472
Granted	395,701	89.78	\$ 20.80		
Exercised	(1,556,917)	71.52			
Canceled	(74,651)	76.56			
Outstanding at December 28, 2019	<u>2,817,519</u>	<u>\$ 75.34</u>		6.8	\$ 47,834
Exercisable at December 28, 2019	<u>1,629,075</u>	<u>\$ 74.81</u>		5.9	\$ 28,502

The aggregate intrinsic values in the table above represent the total difference between the Company's closing stock price at each year-end and the option exercise price, multiplied by the number of in-the-money options at each year-end. As of December 28, 2019, total unrecognized compensation expense related to non-vested stock options was approximately \$7.7 million with a weighted average expense recognition period of 1.6 years.

There were no material modifications to options in fiscal 2019, 2018, or 2017.

Other information relative to options activity during fiscal 2019, 2018, and 2017 is as follows (in thousands):

	Fiscal Year		
	2019	2018	2017
Total fair value of stock options vested	\$ 16,060	\$ 18,247	\$ 15,996
Total intrinsic value of stock options exercised	\$ 45,101	\$ 43,476	\$ 9,237

Restricted Stock Units

The Company issues shares for restricted stock units once vesting occurs and related restrictions lapse. The fair value of the restricted stock units is the closing price of the Company's common stock the day preceding the grant date, discounted for the expected dividend yield over the term of the award. The units generally vest over a one to three-year term; some plan participants have elected to defer receipt of shares of common stock upon vesting of restricted stock units, and as a result, those shares are not issued until a later date. A summary of restricted stock unit activity is presented below:

Restricted Stock Unit Activity	Restricted Stock Units	Weighted Average Grant Date Fair Value
Restricted at December 29, 2018	438,070	\$ 64.09
Granted	255,500	88.02
Vested	(116,118)	71.49
Forfeited	(34,046)	73.28
Restricted at December 28, 2019	<u>543,406</u>	<u>\$ 73.55</u>

Other information relative to restricted stock unit activity during fiscal 2019, 2018, and 2017 is as follows (in thousands):

	Fiscal Year		
	2019	2018	2017
Total grant date fair value of restricted stock units vested and issued	\$ 8,301	\$ 5,325	\$ 3,301
Total intrinsic value of restricted stock units vested and issued	\$ 10,623	\$ 5,364	\$ 3,465

There were no material modifications to restricted stock units in fiscal 2019, 2018, or 2017.

As of December 28, 2019, total unrecognized compensation expense related to non-vested restricted stock units was approximately \$19.6 million with a weighted average expense recognition period of 1.8 years.

Performance-Based Restricted Share Units

We issue performance-based restricted share units to senior executives that represent shares potentially issuable in the future, subject to the achievement of specified performance goals. The performance metrics for the units are growth in net sales and growth in earnings per diluted share over a specified performance period. Issuance is based upon the level of achievement of the relative performance targets. The fair value of the performance-based restricted share units is the closing price of the Company's common stock the day preceding the grant date, discounted for the expected dividend yield over the term of the awards. A summary of performance-based restricted share unit activity is presented below:

Performance-Based Restricted Share Unit Activity	Performance-Based Restricted Share Units	Weighted Average Grant Date Fair Value
Restricted at December 29, 2018	41,310	\$ 63.90
Granted ^(a)	58,115	85.51
Performance adjustment	29,001	63.90
Vested	(28,792)	70.68
Forfeited	(6,173)	85.04
Restricted at December 28, 2019	93,461	\$ 75.97

^(a)Assumes 100% target level achievement of the relative performance targets. The actual number of shares that will be issued, which may be higher or lower than the target, will be determined by the level of achievement of the relative performance targets.

Other information relative to performance-based restricted share unit activity during fiscal 2019 is as follows (in thousands):

	Fiscal Year		
	2019	2018	2017
Total grant date fair value of performance-based restricted share units vested and issued	\$ 2,035	\$ —	\$ —
Total intrinsic value of performance-based restricted share units vested and issued	\$ 2,666	\$ —	\$ —

There were no material modifications to performance-based restricted share units in fiscal 2019, 2018, or 2017.

As of December 28, 2019, total unrecognized compensation expense related to non-vested performance-based restricted share units was approximately \$2.3 million with a weighted average expense recognition period of 1.8 years.

Shares Withheld to Satisfy Tax Withholding Requirements

For the majority of restricted stock units and performance-based restricted share units granted, the number of shares issued on the date these stock awards vest is net of shares withheld by the Company to satisfy the minimum statutory tax withholding requirements, which the Company pays on behalf of its employees. The Company issued 103,124, 53,714, and 39,314 shares as a result of vested restricted stock units and performance-based restricted share units during fiscal 2019, 2018, and 2017, respectively. Although shares withheld are not issued, they are treated similar to common stock repurchases as they reduce the number of shares that would have been issued upon vesting. The amounts are net of 41,786, 17,131, and 11,755 shares withheld to satisfy \$3.8 million, \$1.4 million, and \$0.8 million of employees' tax obligations during fiscal 2019, 2018, and 2017, respectively.

Employee Stock Purchase Plan

The ESPP provides Company employees the opportunity to purchase, through payroll deductions, shares of common stock at a 15% discount. Pursuant to the terms of the ESPP, the Company issued 61,678, 77,458, and 83,155 shares of common stock during fiscal 2019, 2018, and 2017, respectively. The total cost related to the ESPP, including the compensation expense calculations, was approximately \$1.1 million, \$1.1 million, and \$1.0 million in fiscal 2019, 2018, and 2017, respectively. There is a maximum of 16.0 million shares of common stock that are reserved under the ESPP. At December 28, 2019, there were approximately 11.9 million remaining shares of common stock reserved for future issuance under the ESPP.

Note 3 – Goodwill and Other Intangible Assets:*Goodwill*

The Company had approximately \$93.2 million of goodwill at December 28, 2019 and December 29, 2018. Goodwill is allocated to each identified reporting unit, which is defined as an operating segment or one level below the operating segment. Goodwill is not amortized, but is evaluated for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable.

In the fourth quarter of fiscal 2019, the Company completed its annual impairment testing of goodwill for all reporting units and no impairment was identified. The Company determined that the fair value of each reporting unit (including goodwill) was in excess of the carrying value of the respective reporting unit.

Other Intangible Assets

The Company had approximately \$31.3 million of intangible assets other than goodwill at December 28, 2019 and December 29, 2018. The intangible asset balance represents the estimated fair value of the Petsense tradename, which is not subject to amortization as it has an indefinite useful life on the basis that it is expected to contribute cash flows beyond the foreseeable horizon.

In the fourth quarter of fiscal 2019, the Company completed its annual impairment testing of intangible assets and no impairment was identified. The Company determined that the fair value of the intangible asset was in excess of the carrying value.

Note 4 – Debt:

The following table summarizes the Company’s outstanding debt as of the dates indicated (in millions):

	December 28, 2019	December 29, 2018
Senior Notes	\$ 150.0	\$ 150.0
Senior Credit Facility:		
February 2016 Term Loan	145.0	165.0
June 2017 Term Loan	87.5	93.8
Revolving credit loans	15.0	—
Total outstanding borrowings	397.5	408.8
Less: unamortized debt issuance costs	(1.0)	(1.4)
Total debt	396.5	407.4
Less: current portion of long-term debt	(30.0)	(26.3)
Long-term debt	\$ 366.5	\$ 381.1
Outstanding letters of credit	\$ 32.0	\$ 33.5

Senior Notes

On August 14, 2017, the Company entered into a note purchase and private shelf agreement (the “Note Purchase Agreement”), pursuant to which the Company agreed to sell \$150 million aggregate principal amount of senior unsecured notes due August 14, 2029 (the “2029 Notes”) in a private placement. The 2029 Notes bear interest at 3.70% per annum with interest payable semi-annually in arrears on each annual and semi-annual anniversary of the issuance date. The obligations under the Note Purchase Agreement are unsecured, but guaranteed by each of the Company’s material subsidiaries.

The Company may from time to time issue and sell additional senior unsecured notes (the “Shelf Notes”) pursuant to the Note Purchase Agreement, in an aggregate principal amount of up to \$150 million. The Shelf Notes will have a maturity date of no more than 12 years after the date of original issuance and may be issued through August 14, 2020, unless earlier terminated in accordance with the terms of the Note Purchase Agreement.

Pursuant to the Note Purchase Agreement, the 2029 Notes and any Shelf Notes (collectively, the "Notes") are redeemable by the Company, in whole at any time or in part from time to time, at 100% of the principal amount of the Notes being redeemed, together with accrued and unpaid interest thereon and a make whole amount calculated by discounting all remaining scheduled payments on the Notes by the yield on the U.S. Treasury security with a maturity equal to the remaining average life of the Notes plus 0.50%.

Senior Credit Facility

On February 19, 2016, the Company entered into a senior credit facility (the "2016 Senior Credit Facility") consisting of a \$200 million term loan (the "February 2016 Term Loan") and a \$500 million revolving credit facility (the "Revolver") with a sublimit of \$50 million for swingline loans. This agreement is unsecured and matures on February 19, 2022.

On June 15, 2017, pursuant to an accordion feature available under the 2016 Senior Credit Facility, the Company entered into an incremental term loan agreement (the "June 2017 Term Loan") which increased the term loan capacity under the 2016 Senior Credit Facility by \$100 million. This agreement is unsecured and matures on June 15, 2022.

The February 2016 Term Loan of \$200 million requires quarterly payments totaling \$10 million per year in years one and two and \$20 million per year in years three through the maturity date, with the remaining balance due in full on the maturity date of February 19, 2022. The June 2017 Term Loan of \$100 million requires quarterly payments totaling \$5 million per year in years one and two and \$10 million per year in years three through the maturity date, with the remaining balance due in full on the maturity date of June 15, 2022. The 2016 Senior Credit Facility also contains a \$500 million revolving credit facility (with a sublimit of \$50 million for swingline loans).

Borrowings under the February 2016 Term Loan and Revolver bear interest at either the bank's base rate (4.750% at December 28, 2019) or the London Inter-Bank Offer Rate ("LIBOR") (1.799% at December 28, 2019) plus an additional amount ranging from 0.500% to 1.125% per annum (0.750% at December 28, 2019), adjusted quarterly based on our leverage ratio. The Company is also required to pay, quarterly in arrears, a commitment fee for unused capacity ranging from 0.075% to 0.200% per annum (0.125% at December 28, 2019), adjusted quarterly based on the Company's leverage ratio. Borrowings under the June 2017 Term Loan bear interest at either the bank's base rate (4.750% at December 28, 2019) or LIBOR (1.799% at December 28, 2019) plus an additional 1.000% per annum. As further described in Note 5, the Company has entered into interest rate swap agreements in order to hedge our exposure to variable rate interest payments associated with each of the term loans under the 2016 Senior Credit Facility.

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

Covenants and Default Provisions of the Debt Agreements

The 2016 Senior Credit Facility and the Note Purchase Agreement (collectively, the "Debt Agreements") require quarterly compliance with respect to two material covenants: a fixed charge coverage ratio and a leverage ratio. Both ratios are calculated on a trailing twelve-month basis at the end of each fiscal quarter. The fixed charge coverage ratio compares earnings before interest, taxes, depreciation, amortization, share-based compensation and rent expense ("consolidated EBITDAR") to the sum of interest paid and rental expense (excluding any straight-line rent adjustments). The fixed charge coverage ratio shall be greater than or equal to 2.00 to 1.0 as of the last day of each fiscal quarter. The leverage ratio compares rental expense (excluding any straight-line rent adjustments) multiplied by a factor of six plus total debt to consolidated EBITDAR. The leverage ratio shall be less than or equal to 4.00 to 1.0 as of the last day of each fiscal quarter. The Debt Agreements also contain certain other restrictions regarding additional indebtedness, capital expenditures, business operations, guarantees, investments, mergers, consolidations and sales of assets, transactions with subsidiaries or affiliates, and liens. As of December 28, 2019, the Company was in compliance with all debt covenants.

The Debt Agreements contain customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other material indebtedness, certain events of bankruptcy and insolvency, material judgments, certain ERISA events and invalidity of loan documents. Upon certain changes of control, payment under the Debt Agreements could become due and payable. In addition, under the Note Purchase Agreement, upon an event of default or change of control, the make whole payment described above may become due and payable.

The Note Purchase Agreement also requires that, in the event the Company amends its 2016 Senior Credit Facility, or any subsequent credit facility of \$100 million or greater, such that it contains covenant or default provisions that are not provided in the Note Purchase Agreement or that are similar to those contained in the Note Purchase Agreement but which contain percentages, amounts, formulas or grace periods that are more restrictive than those set forth in the Note Purchase Agreement or are otherwise more beneficial to the lenders thereunder, the Note Purchase Agreement shall be automatically amended to include such additional or amended covenants and/or default provisions.

Note 5 – Interest Rate Swaps:

The Company entered into an interest rate swap agreement which became effective on March 31, 2016, with a maturity date of February 19, 2021. The notional amount of this swap agreement began at \$197.5 million (the principal amount of the February 2016 Term Loan borrowings as of March 31, 2016) and will amortize at the same time and in the same amount as the February 2016 Term Loan borrowings as described in Note 4, up to the maturity date of the interest rate swap agreement on February 19, 2021. As of December 28, 2019, the notional amount of the interest rate swap was \$145.0 million.

The Company entered into a second interest rate swap agreement which became effective on June 30, 2017, with a maturity date of June 15, 2022. The notional amount of this swap agreement began at \$100 million (the principal amount of the June 2017 Term Loan borrowings as of June 30, 2017) and will amortize at the same time and in the same amount as the June 2017 Term Loan borrowings as described in Note 4. As of December 28, 2019, the notional amount of the interest rate swap was \$87.5 million.

The Company's interest rate swap agreements are executed for risk management and are not held for trading purposes. The objective of the interest rate swap agreements is to mitigate interest rate risk associated with future changes in interest rates. To accomplish this objective, the interest rate swap agreements are intended to hedge the variable cash flows associated with the variable rate term loan borrowings under the 2016 Senior Credit Facility. Both interest rate swap agreements entitle the Company to receive, at specified intervals, a variable rate of interest based on LIBOR in exchange for the payment of a fixed rate of interest throughout the life of the agreement, without exchange of the underlying notional amount.

The Company has designated its interest rate swap agreements as cash flow hedges and accounts for the underlying activity in accordance with hedge accounting. The interest rate swaps are presented within the Consolidated Balance Sheets at fair value. In accordance with hedge accounting, the gains and losses on interest rate swaps that are designated and qualify as cash flow hedges are recorded as a component of Other Comprehensive Income ("OCI"), net of related income taxes, and reclassified into earnings in the same income statement line and period during which the hedged transactions affect earnings.

As of December 28, 2019, amounts to be reclassified from Accumulated Other Comprehensive Income ("AOCI") into interest during the next twelve months are not expected to be material. No significant amounts were excluded from the assessment of cash flow hedge effectiveness as of December 28, 2019.

The assets and liabilities measured at fair value related to the Company's interest rate swaps, excluding accrued interest, were as follows (in thousands):

Derivatives Designated as Cash Flow Hedges	Balance Sheet Location	December 28, 2019	December 29, 2018
Interest rate swaps (short-term portion)	Other current assets	\$ 558	\$ 2,601
Interest rate swaps (long-term portion)	Other assets	91	3,222
Total derivative assets		\$ 649	\$ 5,823
Interest rate swaps (short-term portion)	Other accrued expenses	\$ 90	\$ —
Interest rate swaps (long-term portion)	Other long-term liabilities	292	—
Total derivative liabilities		\$ 382	\$ —

The offset to the interest rate swap asset or liability is recorded as a component of equity, net of deferred taxes, in AOCI, and will be reclassified into earnings over the term of the underlying debt as interest payments are made.

The following table summarizes the changes in AOCI, net of tax, related to the Company's interest rate swaps (in thousands):

	Fiscal Year	
	2019	2018
Beginning fiscal year AOCI balance	\$ 3,814	\$ 3,358
Current fiscal year (loss)/gain recognized in OCI	(4,332)	456
Cumulative adjustment as a result of ASU 2017-12 adoption	717	—
Other comprehensive (loss)/gain, net of tax	(3,615)	456
Ending fiscal year AOCI balance	\$ 199	\$ 3,814

Cash flows related to the interest rate swaps are included in operating activities on the Consolidated Statements of Cash Flows.

The following table summarizes the impact of pre-tax gains and losses derived from the Company's interest rate swaps (in thousands):

Financial Statement Location	Fiscal Year		
	2019	2018	2017
Amount of (losses)/gains recognized in OCI during the period	\$ (5,556)	\$ 612	\$ 2,240
Other comprehensive (loss)/income			

The following table summarizes the impact of taxes affecting AOCI as a result of the Company's interest rate swaps (in thousands):

	Fiscal Year	
	2019	2018
Income tax (benefit)/expense of interest rate swaps on AOCI	\$ (1,224)	\$ 156

Credit-risk-related contingent features

In accordance with the underlying interest rate swap agreements, the Company could be declared in default on its interest rate swap obligations if repayment of the underlying indebtedness (i.e., the Company's term loans) is accelerated by the lender due to the Company's default on such indebtedness.

If the Company had breached any of the provisions in the underlying agreements at December 28, 2019, it could have been required to post full collateral or settle its obligations under the Company's interest rate swap agreements. However, as of December 28, 2019, the Company had not breached any of these provisions or posted any collateral related to the underlying interest rate swap agreements.

Note 6 – Leases:

The Company leases the majority of its retail store locations, two distribution sites, its Merchandise Innovation Center, and certain equipment under various non-cancellable operating leases. The leases have varying terms and expire at various dates through 2037. Store leases typically have initial terms of between 10 and 15 years, with two to four optional renewal periods of five years each. The exercise of lease renewal options is at our sole discretion. The Company has included lease renewal options in the lease term for calculations of its right-of-use assets and liabilities when it is reasonably certain that the Company plans to renew these leases. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company accounts for lease components (e.g., fixed payments including rent, real estate taxes, and insurance costs) together with non-lease components (e.g., fixed payment common-area maintenance) as a single component for all classes of underlying assets. Certain lease agreements require variable payments based upon actual costs of common-area maintenance, real estate taxes, and insurance. Further, certain lease agreements require variable payments based upon store sales above agreed-upon sales levels for the year and others require payments adjusted periodically for inflation. As substantially all of our leases do not provide an implicit rate, we estimate our collateralized incremental borrowing rate based upon a synthetic credit rating and yield curve analysis at commencement or modification date in determining the present value of lease payments.

The Company has elected not to recognize leases with an original term of one year or less on the balance sheet. Short-term lease cost during the periods presented was immaterial.

In addition to the operating lease right-of-use assets presented on the Consolidated Balance Sheets, assets, net of accumulated amortization, under finance leases of \$30.9 million are recorded within the Property and equipment, net line on the Consolidated Balance Sheets as of December 28, 2019.

The following table summarizes the Company's classification of lease cost (in thousands):

		Fiscal Year Ended	
		December 28, 2019	
Statement of Income Location			
Finance lease cost:			
Amortization of lease assets	Depreciation and amortization	\$	4,281
Interest on lease liabilities	Interest expense, net		1,629
Operating lease cost	Selling, general and administrative expenses		353,961
Variable lease cost	Selling, general and administrative expenses		73,768
Net lease cost		\$	433,639

The following table summarizes the future maturities of the Company's lease liabilities (in thousands):

	Operating Leases ^(a)	Finance Leases	Total
2020	\$ 369,079	\$ 5,663	\$ 374,742
2021	350,527	5,723	356,250
2022	326,908	4,601	331,509
2023	301,783	3,409	305,192
2024	268,255	3,424	271,679
After 2024	1,169,671	21,818	1,191,489
Total lease payments	2,786,223	44,638	2,830,861
Less: Interest	(507,962)	(10,213)	(518,175)
Present value of lease liabilities	\$ 2,278,261	\$ 34,425	\$ 2,312,686

^(a) Operating lease payments exclude \$212.8 million of legally binding minimum lease payments for leases signed, but not yet commenced.

The following table summarizes the Company's lease term and discount rate:

	December 28, 2019
Weighted-average remaining lease term (years):	
Finance leases	10.0
Operating leases	9.0
Weighted-average discount rate:	
Finance leases	5.1 %
Operating leases	4.3 %

The following table summarizes the other information related to the Company's lease liabilities (in thousands):

	Fiscal Year Ended
	December 28, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Financing cash flows from finance leases	\$ 3,709
Operating cash flows from finance leases	1,629
Operating cash flows from operating leases	360,580

The Company adopted new lease accounting guidance in the first quarter of fiscal 2019, as discussed in Note 1 and Note 14 to the Consolidated Financial Statements, and as required, the following disclosure is provided for periods prior to adoption. As of December 29, 2018 future minimum payments, by year and in the aggregate, under leases with initial or remaining terms of one year or more consisted of the following (in thousands):

	Capital Leases	Operating Leases
2019	\$ 5,215	\$ 344,836
2020	5,234	328,589
2021	5,294	306,572
2022	4,172	284,327
2023	2,980	260,518
Thereafter	20,169	1,175,972
Total minimum lease payments	43,064	\$ 2,700,814
Amount representing interest	(10,148)	
Present value of minimum lease payments	32,916	
Less: current portion	(3,646)	
Long-term capital lease obligations	\$ 29,270	

Total rent expense was approximately \$342.2 million and \$319.5 million for fiscal 2018 and 2017, respectively. Total contingent rent expense was insignificant for fiscal 2018 and 2017.

Note 7 – Capital Stock and Dividends:

Capital Stock

The authorized capital stock of the Company consists of common stock and preferred stock. The Company is authorized to issue 400 million shares of common stock. The Company is also authorized to issue 40 thousand shares of preferred stock, with such designations, rights and preferences as may be determined from time to time by the Company’s Board of Directors.

Dividends

During fiscal 2019 and 2018, the Company’s Board of Directors declared the following cash dividends:

Date Declared	Dividend Amount Per Share of Common Stock	Record Date	Date Paid
November 6, 2019	\$0.35	November 25, 2019	December 10, 2019
August 7, 2019	\$0.35	August 26, 2019	September 10, 2019
May 8, 2019	\$0.35	May 28, 2019	June 11, 2019
February 6, 2019	\$0.31	February 25, 2019	March 12, 2019
November 7, 2018	\$0.31	November 26, 2018	December 11, 2018
August 8, 2018	\$0.31	August 27, 2018	September 11, 2018
May 9, 2018	\$0.31	May 29, 2018	June 12, 2018
February 7, 2018	\$0.27	February 26, 2018	March 13, 2018

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

On February 5, 2020, the Company's Board of Directors declared a quarterly cash dividend of \$0.35 per share of the Company's outstanding common stock. The dividend will be paid on March 10, 2020, to stockholders of record as of the close of business on February 24, 2020.

Note 8 – Treasury Stock:

The Company's Board of Directors has authorized common stock repurchases under a share repurchase program. As of December 29, 2018, the Company had remaining authorization under the share repurchase program of \$520.0 million. On May 8, 2019, the Board of Directors authorized a \$1.5 billion increase to the existing share repurchase program, bringing the total amount authorized since the inception of the program up to \$4.5 billion, exclusive of any fees, commissions or other expenses related to such repurchases. The repurchases may be made from time to time on the open market or in privately negotiated transactions. The timing and amount of any shares repurchased under the program will depend on a variety of factors, including price, corporate and regulatory requirements, capital availability and other market conditions. Repurchased shares are accounted for at cost and will be held in treasury for future issuance. The program may be limited or terminated at any time without prior notice. As of December 28, 2019, the Company had remaining authorization under the share repurchase program of \$1.49 billion, exclusive of any fees, commissions or other expenses.

The following table provides the number of shares repurchased, average price paid per share, and total amount paid for share repurchases in fiscal 2019, 2018, and 2017, respectively (in thousands, except per share amounts):

	Fiscal Year		
	2019	2018	2017
Total number of shares repurchased	5,384	4,987	5,924
Average price paid per share	\$ 99.05	\$ 70.14	\$ 62.35
Total cash paid for share repurchases	\$ 533,319	\$ 349,776	\$ 369,403

Note 9 – Net Income Per Share:

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

	Fiscal Year		
	2019		
	Net Income	Shares	Per Share Amount
Basic net income per share:	\$ 562,354	119,727	\$ 4.70
Dilutive effect of share-based awards	—	1,016	(0.04)
Diluted net income per share:	\$ 562,354	120,743	\$ 4.66

	Fiscal Year		
	2018		
	Net Income	Shares	Per Share Amount
Basic net income per share:	\$ 532,357	122,651	\$ 4.34
Dilutive effect of share-based awards	—	820	(0.03)
Diluted net income per share:	\$ 532,357	123,471	\$ 4.31

	Fiscal Year		
	2017		
	Net Income	Shares	Per Share Amount
Basic net income per share:	\$ 422,599	127,588	\$ 3.31
Dilutive effect of share-based awards	—	616	(0.01)
Diluted net income per share:	\$ 422,599	128,204	\$ 3.30

Anti-dilutive share-based awards excluded from the above calculations totaled approximately 0.4 million, 3.1 million, and 3.9 million shares in fiscal 2019, 2018, and 2017, respectively.

Note 10 – Income Taxes:

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

	Fiscal Year		
	2019	2018	2017
Current tax expense:			
Federal	\$ 128,490	\$ 123,388	\$ 207,986
State	25,091	15,597	14,516
Total current	<u>153,581</u>	<u>138,985</u>	<u>222,502</u>
Deferred tax expense (benefit):			
Federal	11,770	9,650	22,469
State	(4,328)	2,393	4,953
Total deferred	<u>7,442</u>	<u>12,043</u>	<u>27,422</u>
Total provision	<u>\$ 161,023</u>	<u>\$ 151,028</u>	<u>\$ 249,924</u>

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

	December 28, 2019	December 29, 2018
Tax assets:		
Inventory valuation	\$ 16,676	\$ 14,417
Accrued employee benefits costs	12,002	15,333
Accrued sales tax audit reserve	4,173	3,419
Rent expenses in excess of cash payments required	30,975	25,628
Deferred compensation	14,836	17,598
Workers' compensation insurance	10,154	9,900
General liability insurance	6,025	5,410
Lease exit obligations	2,087	2,010
Income tax credits	6,377	5,773
Other	5,768	9,160
	<u>109,073</u>	<u>108,648</u>
Tax liabilities:		
Inventory basis difference	(4,667)	(4,590)
Prepaid expenses	(2,024)	(1,912)
Depreciation	(93,919)	(87,417)
Amortization	(8,230)	(6,039)
Other	(386)	(2,083)
	<u>(109,226)</u>	<u>(102,041)</u>
Net deferred tax (liability)/asset	<u>\$ (153)</u>	<u>\$ 6,607</u>

The Company has evaluated the need for a valuation allowance for all or a portion of the deferred tax assets. The Company believes that all of the deferred tax assets will more likely than not be realized through future earnings. The Company had state tax credit carryforwards of \$6.2 million and \$5.7 million as of December 28, 2019 and December 29, 2018, respectively, with varying dates of expiration through 2031. The Company provided no valuation allowance as of December 28, 2019 and December 29, 2018 for state tax credit carryforwards, as the Company believes it is more likely than not that all of these credits will be utilized before their expiration dates.

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

	Fiscal Year		
	2019	2018	2017
Tax provision at statutory rate	\$ 151,909	\$ 143,511	\$ 235,383
Tax effect of:			
State income taxes, net of federal tax benefits	19,722	18,019	14,320
Section 162(m) limitation	2,572	2,581	1,223
Tax credits, net of federal tax benefits	(7,768)	(7,140)	(5,060)
Share-based compensation programs	(4,484)	(4,522)	(1,040)
Enactment of tax legislation	—	—	4,856
Other	(928)	(1,421)	242
Total income tax expense	<u>\$ 161,023</u>	<u>\$ 151,028</u>	<u>\$ 249,924</u>

The Company and its affiliates file income tax returns in the U.S. and various state and local jurisdictions. With few exceptions, the Company is no longer subject to federal, state and local income tax examinations by tax authorities for years before 2015. Various states have completed an examination of our income tax returns for 2015 through 2017 with minimal adjustments.

The total amount of unrecognized tax positions that, if recognized, would decrease the effective tax rate, is \$2.3 million at December 28, 2019. In addition, the Company recognizes current interest and penalties accrued related to these uncertain tax positions as interest expense, and the amount is not material to the Consolidated Statements of Income. The Company has considered the reasonably possible expected net change in uncertain tax positions during the next 12 months and does not expect any material changes to our liability for uncertain tax positions through December 26, 2020.

A reconciliation of the beginning and ending gross amount of unrecognized tax benefits (exclusive of interest and penalties) is as follows (in thousands):

	Fiscal Year		
	2019	2018	2017
Balance at beginning of year	\$ 2,451	\$ 1,993	\$ 1,579
Additions based on tax positions related to the current year	650	621	527
Additions for tax positions of prior years	59	257	14
Reductions for tax positions of prior years	(400)	(420)	(127)
Balance at end of year	<u>\$ 2,760</u>	<u>\$ 2,451</u>	<u>\$ 1,993</u>

Note 11 – Retirement Benefit Plans:

The Company has a defined contribution benefit plan, the Tractor Supply Company 401(k) Retirement Savings Plan (the “401(k) Plan”), which provides retirement benefits for eligible employees. The Company matches (in cash) 100% of the employee’s elective contributions up to 3% of eligible compensation plus 50% of the employee’s elective contributions from 3% to 6% of eligible compensation. In no event shall the total Company match made on behalf of the employee exceed 4.5% of the employee’s eligible compensation. All current contributions are immediately vested. Company contributions to the 401(k) Plan were approximately \$9.8 million, \$8.5 million, and \$7.4 million during fiscal 2019, 2018, and 2017, respectively.

The Company offers, through a deferred compensation program, the opportunity for certain qualifying employees to elect to defer a portion of their annual base salary and/or their annual incentive bonus. Under the deferred compensation program, a percentage of the participants’ salary deferral is matched by the Company, limited to a maximum annual matching contribution of \$4,500. The Company’s contributions, including accrued interest, were \$0.7 million, \$0.6 million, and \$0.5 million during fiscal 2019, 2018, and 2017, respectively.

Note 12 – Commitments and Contingencies:*Construction and Real Estate Commitments*

At December 28, 2019, the Company had no material contractual commitments related to construction projects extending greater than twelve months.

Letters of Credit

At December 28, 2019, there were \$32.0 million outstanding letters of credit under the 2016 Senior Credit Facility.

Litigation

The Company is involved in various litigation matters arising in the ordinary course of business. The Company believes that, based upon information currently available, any estimated loss related to such matters has been adequately provided for in accrued liabilities to the extent probable and reasonably estimable. Accordingly, the Company currently expects these matters will be resolved without material adverse effect on its consolidated financial position, results of operations or cash flows. However, litigation and other legal matters involve an element of uncertainty. Future developments in such matters, including adverse decisions or settlements or resulting required changes to the Company's business operations, could affect our consolidated operating results when resolved in future periods or could result in liability or other amounts material to the Company's Consolidated Financial Statements.

Note 13 – Segment Reporting:

The Company has one reportable segment which is the retail sale of products that support the rural lifestyle. The following table indicates the percentage of net sales represented by each major product category during fiscal 2019, 2018, and 2017:

Product Category:	Percent of Net Sales		
	Fiscal Year		
	2019	2018	2017
Livestock and Pet	47 %	47 %	47 %
Hardware, Tools and Truck	21	22	22
Seasonal, Gift and Toy Products	20	19	19
Clothing and Footwear	8	8	8
Agriculture	4	4	4
Total	100 %	100 %	100 %

Note 14 – New Accounting Pronouncements:*New Accounting Pronouncements Recently Adopted*

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)." This update requires a dual approach for lessee accounting under which a lessee will account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with differing methodology for income statement recognition. In January 2018, the FASB issued ASU 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842." This update permits an entity to elect an optional transition practical expedient to not evaluate land easements that exist or expired before the entity's adoption of ASU 2016-02 and that were not accounted for as leases under previous lease guidance. In July 2018, ASU 2018-10, "Codification Improvements to Topic 842, Leases," was issued to provide more detailed guidance and additional clarification for implementing ASU 2016-02. Furthermore, in July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842): Targeted Improvements," which provides an optional transition method in addition to the existing modified retrospective transition method by allowing a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. These new leasing standards are effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. In March of 2019, the FASB issued ASU 2019-01, "Leases (Topic 842): Codification Improvements" which was issued to provide more detailed guidance and clarification for implementing ASU 2016-02.

The Company adopted this guidance in the first quarter of fiscal 2019 and as a part of that process, made the following elections:

- The Company elected the optional transition method which allows for the lessee to not recast comparative financial information but rather recognize a cumulative-effect adjustment to retained earnings as of the effective date in the period of adoption. No such adjustment to retained earnings was made as a result of the adoption of this guidance.
- The Company elected the package of practical expedients permitted under the transition guidance within the new standard which, among other things, allowed us to carry forward our prior lease classification under Accounting Standards Codification (“ASC”) Topic 840.
- The Company did not elect the hindsight practical expedient for all leases.
- The Company elected to make the accounting policy election for short-term leases resulting in lease payments being recorded as an expense on a straight-line basis over the lease term.
- The Company elected the land easement practical expedient.

Adoption of the new standard had a material impact to our Consolidated Balance Sheets and related disclosures, and resulted in the recording of additional right-of-use assets and lease liabilities of approximately \$2.08 billion as of the date of adoption. The standard did not materially impact our Consolidated Statements of Income, Comprehensive Income, Stockholders’ Equity, or Cash Flows.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. This update expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. Additionally, the amendments in ASU 2017-12 provide new guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The amendments in ASU 2017-12 require that an entity with cash flow or net investment hedges existing at the date of adoption apply a cumulative-effect adjustment to eliminate the separate measurement of ineffectiveness to the opening balance of retained earnings as of the beginning of the fiscal year in which the entity adopts this guidance. The amended presentation and disclosure guidance should be adopted prospectively. The Company adopted this guidance in the first quarter of fiscal 2019 and recognized a cumulative-effect adjustment of \$0.7 million from retained earnings to accumulated other comprehensive income. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, “Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting,” which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The Company adopted this guidance in the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements and related disclosures.

In October 2018, the FASB issued ASU 2018-16, “Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes” which expands the permissible benchmark interest rates to include the Secured Overnight Financing Rate (SOFR) to be eligible as a U.S. benchmark interest rate for purposes of applying hedge accounting under Topic 815, Derivatives and Hedging. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted if an entity has previously adopted ASU 2017-12. The Company adopted this guidance in the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements and related disclosures.

New Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in more timely recognition of losses. The new guidance applies to financial assets measured at amortized cost basis, including receivables that result from revenue transactions and held-to-maturity debt securities. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, and early adoption was permitted for fiscal years beginning after December 15, 2018. The Company does

not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement,” which amends the disclosure requirements for fair value measurements by removing, modifying and adding certain disclosures. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements and related disclosures.

In August 2018, the FASB issued ASU 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” This update clarifies the accounting treatment for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. The amendments may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company will adopt this guidance on a prospective basis in the first quarter of fiscal 2020. The Company does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements and related disclosures.

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation required by the Securities Exchange Act of 1934, as amended (the “1934 Act”), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the 1934 Act) as of December 28, 2019. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 28, 2019, our disclosure controls and procedures were effective.

Internal Control Over Financial Reporting

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

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information set forth under the caption “Information about our Executive Officers” in Part I of this Form 10-K is incorporated herein by reference.

The information set forth under the captions “Item 1: Election of Directors,” “Board Meetings and Committees,” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement for our Annual Meeting of Stockholders to be held on May 7, 2020, is incorporated herein by reference.

The Company has a Code of Ethics which covers all exempt employees, officers and directors of the Company, including the principal executive officer, principal financial officer, principal accounting officer and controller. The Code of Ethics is available in the “Corporate Governance” section of the Company’s website at [TractorSupply.com](#). A copy of the Code of Ethics can also be obtained, free of charge, upon written request to the Corporate Secretary, Tractor Supply Company, 5401 Virginia Way, Brentwood, TN 37027. The Company intends to post amendments to or waivers, if any, from its Code of Ethics (to the extent applicable to its principal executive officer, principal financial officer, principal accounting officer or controller) on its website.

Item 11. Executive Compensation

The information set forth under the captions “Corporate Governance – Compensation Committee Interlocks and Insider Participation,” “Compensation of Directors,” and “Executive Compensation” in our Proxy Statement for our Annual Meeting of Stockholders to be held on May 7, 2020, is incorporated herein by reference.

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

The information set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in our Proxy Statement for our Annual Meeting of Stockholders to be held on May 7, 2020, is incorporated herein by reference.

Following is a summary of our equity compensation plans as of December 28, 2019, under which equity securities are authorized for issuance, aggregated as follows:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
<u>Equity compensation plans approved by security holders:</u>			
Stock Incentive Plans	3,454,386 ^(a)	\$ 75.34 ^(b)	11,762,982
Employee Stock Purchase Plan	—	—	11,871,696
<u>Equity compensation plans not approved by security holders</u>			
Total	<u>3,454,386</u>	<u>\$ 75.34</u>	<u>23,634,678</u>

^(a) Includes 2,817,519 outstanding stock options, 499,459 unvested restricted stock units and 43,947 restricted stock units which have vested but the receipt of which have been deferred by the recipient, and 93,461 unvested performance-based restricted share units. The 2006 Stock Incentive Plan was superseded in May 2009 by the 2009 Stock Incentive Plan. The 2009 Stock Incentive Plan was superseded in May 2018 by the 2018 Omnibus Incentive Plan. Shares available under the 2018 Omnibus Incentive Plan are reduced by one share for each share issued pursuant to the exercise of a stock option and by two shares for each share issued pursuant to a full-value award (e.g., restricted stock unit or performance-based restricted share unit).

^(b) Excludes restricted stock units and performance-based restricted share units which have a weighted average exercise price of zero.

The information set forth in Note 2 to the Consolidated Financial Statements contained in this Form 10-K provides further information with respect to the material features of each plan.

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

The information set forth under the captions “Corporate Governance – Director Independence and Board Operations” and “Related Party Transactions” in our Proxy Statement for our Annual Meeting of Stockholders to be held on May 7, 2020, is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information set forth under the caption “Item 2 – Ratification of Reappointment of Independent Registered Public Accounting Firm” in our Proxy Statement for our Annual Meeting of Stockholders to be held on May 7, 2020, is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements

See Consolidated Financial Statements under Item 8 on pages 39 through 72 of this Form 10-K.

(a) (2) Financial Statement Schedules

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

(a) (3) Exhibits

The exhibits listed in the Index to Exhibits, which appears on pages 76 through 79 of this Form 10-K, are incorporated herein by reference or filed as part of this Form 10-K.

Item 16. Form 10-K Summary

None.

SIGNATURES

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

TRACTOR SUPPLY COMPANY

Date: February 20, 2020

By: /s/ Kurt D. Barton
Executive Vice President – Chief Financial Officer and Treasurer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Kurt D. Barton</u> Kurt D. Barton	Executive Vice President – Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 20, 2020
<u>/s/ Harry A. Lawton III</u> Harry A. Lawton III	President, Chief Executive Officer, and Director (Principal Executive Officer)	February 20, 2020
<u>/s/ Cynthia T. Jamison</u> Cynthia T. Jamison	Chairman of the Board	February 20, 2020
<u>/s/ Ricardo Cardenas</u> Ricardo Cardenas	Director	February 20, 2020
<u>/s/ Denise L. Jackson</u> Denise L. Jackson	Director	February 20, 2020
<u>/s/ Thomas A. Kingsbury</u> Thomas A. Kingsbury	Director	February 20, 2020
<u>/s/ Ramkumar Krishnan</u> Ramkumar Krishnan	Director	February 20, 2020
<u>/s/ George MacKenzie</u> George MacKenzie	Director	February 20, 2020
<u>/s/ Edna K. Morris</u> Edna K. Morris	Director	February 20, 2020
<u>/s/ Gregory A. Sandfort</u> Gregory A. Sandfort	Director	February 20, 2020
<u>/s/ Mark J. Weikel</u> Mark J. Weikel	Director	February 20, 2020

EXHIBIT INDEX

- 3.1 [Restated Certificate of Incorporation, as amended, of the Company \(filed as Exhibit 3.1 to Registrant's Annual Report on Form 10-K, filed with the Commission on February 29, 2012, Commission File No. 000-23314, and incorporated herein by reference\).](#)
- 3.2 [Fifth Amended and Restated By-laws \(filed as Exhibit 3.1\(i\) to Registrant's Current Report on Form 8-K, filed with the Commission on February 15, 2017, Commission File No. 000-23314, and incorporated herein by reference\).](#)
- 4.1 Form of Specimen Certificate representing the Company's Common Stock, par value \$.008 per share (filed as Exhibit 4.2 to Amendment No. 1 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed in paper form with the Commission on January 31, 1994, and incorporated herein by reference).
- 4.2* [Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.](#)
- 10.1 Certificate of Insurance relating to the Medical Expense Reimbursement Plan of the Company (filed as Exhibit 10.33 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed in paper form with the Commission on December 17, 1993, and incorporated herein by reference).
- 10.2 Summary Plan Description of the Executive Life Insurance Plan of the Company (filed as Exhibit 10.34 to Registrant's Registration Statement on Form S-1, Registration No. 33-73028, filed in paper form with the Commission on December 17, 1993, and incorporated herein by reference).+
- 10.3 [Tractor Supply Company 1996 Associate Stock Purchase Plan \(filed as Exhibit 4.4 to Registrant's Registration Statement on Form S-8, Registration No. 333-10699, filed with the Commission on August 23, 1996, and incorporated herein by reference\).+](#)
- 10.4 [Tractor Supply Company Restated 401\(k\) Retirement Plan \(filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-3, Registration No. 333-35317, filed with the Commission on September 10, 1997, and incorporated herein by reference\).+](#)
- 10.5 [First Amendment, dated December 22, 2003 to the Tractor Supply Company Restated 401\(k\) Retirement Savings Plan \(filed as Exhibit 10.53 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 8, 2004, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.6 [Second Amendment to Tractor Supply Company Restated 401\(k\) Retirement Plan \(filed as Exhibit 10.57 to Registrant's Annual Report on Form 10-K, filed with the Commission on March 23, 2001, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.7 [Trust Agreement \(filed as Exhibit 4.2 to Registrant's Registration Statement on Form S-3, Registration No. 333-35317, filed with the Commission on September 10, 1997, and incorporated herein by reference\).](#)
- 10.8 [Tractor Supply Company Executive Deferred Compensation Plan, dated November 11, 2001 \(filed as Exhibit 10.58 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 13, 2002, Commission File No. 000-23314, and incorporated herein by reference\).](#)
- 10.9 [Form of Incentive Stock Option Agreement under the 2006 Stock Incentive Plan \(filed as Exhibit 10.39 to Registrant's Annual Report on Form 10-K, filed with the Commission on February 28, 2007, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.10 [Form of Incentive Stock Option Agreement under the 2006 Stock Incentive Plan \(filed as Exhibit 10.45 to Registrant's Annual Report on Form 10-K, filed with the Commission on February 27, 2008, Commission File No. 000-23314, incorporated herein by reference\).+](#)
- 10.11 [Tractor Supply Company 2006 Stock Incentive Plan \(filed as Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Commission on April 27, 2006, Commission File No. 000-23314 and incorporated herein by reference\).+](#)
- 10.12 [Second Amendment to the Tractor Supply Company 2006 Stock Incentive Plan, effective February 8, 2007 \(filed as Exhibit 10.38 to Registrant's Annual Report on Form 10-K, filed with the Commission on February 28, 2007, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.13 [Form of Incentive Stock Option Agreement under the 2006 Stock Incentive Plan \(filed as Exhibit 10.41 to the Registrant's Annual Report on Form 10-K, filed with the Commission on February 25, 2009, Commission File No. 000-23314, and incorporated herein by reference\).+](#)

- 10.14 [Tractor Supply Company 2009 Stock Incentive Plan \(filed as Exhibit 99.1 to Registrant's Current Report on Form 8-K, filed with the Commission on April 14, 2009, Commission File No. 000-23314, and incorporated herein by reference\).](#)+
- 10.15 [Form of Incentive Stock Option Agreement under the Tractor Supply Company 2009 Stock Incentive Plan \(filed as Exhibit 10.44 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 4, 2009, Commission File No. 000-23314, and incorporated herein by reference\).](#)+
- 10.16 [Form of Restricted Share Unit Agreement under the Tractor Supply Company 2009 Stock Incentive Plan \(filed as Exhibit 10.45 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 4, 2009, Commission File No. 000-23314, and incorporated herein by reference\).](#)+
- 10.17 [Form of Nonqualified Stock Option Agreement under the Tractor Supply Company 2009 Stock Incentive Plan \(filed as Exhibit 10.46 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 4, 2009, Commission File No. 000-23314, and incorporated herein by reference\).](#)+
- 10.18 [Form of Director Restricted Stock Unit Award Agreement \(filed as Exhibit 10.48 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 2, 2009, Commission File No. 000-23314, and incorporated herein by reference\).](#)+
- 10.19 [Form of Restricted Share Unit Agreement for Officers \(filed as Exhibit 10.49 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 2, 2009, Commission File No. 000-23314, and incorporated herein by reference\).](#)+
- 10.20 [Form of Deferred Stock Unit Award Agreement for Directors \(filed as Exhibit 10.50 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on November 2, 2009, Commission File No. 000-23314, and incorporated herein by reference\).](#)+
- 10.21 [Compensation Recoupment Policy \(filed as Exhibit 10.42 to Registrant's Quarterly Report on Form 10-Q, filed with the Commission on May 3, 2011, Commission File No. 000-23314, and incorporated herein by reference\).](#)+
- 10.22 [Credit Agreement, dated as of October 24, 2011, by and among Tractor Supply Company, as Borrower, certain subsidiaries of the Company, certain lenders and Bank of America, N.A., as Administrative Agent for the lenders \(filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed with the Commission on October 28, 2011, Commission File No. 000-23314, and incorporated herein by reference\).](#)
- 10.23 [First Amendment to Credit Agreement and Increase of Revolving Committed Amount dated May 16, 2014, by and among Tractor Supply Company, as Borrower, certain subsidiaries of the Company, certain lenders and Bank of America, N.A., as Administrative Agent for the lenders \(filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed with the Commission on May 21, 2014, Commission File No. 000-23314, and incorporated herein by reference\).](#)
- 10.24 [First Amendment to the Tractor Supply Company 2009 Stock Incentive Plan, effective February 4, 2015 \(filed as Exhibit 10.34 to the Registrant's Annual Report on Form 10-K, filed with the Commission on February 18, 2015, Commission File No. 000-23314, and incorporated herein by reference\).](#)+
- 10.25 [Credit Agreement, dated as of February 19, 2016, by and among Tractor Supply Company, as Borrower, certain subsidiaries of the Company, certain lenders and Wells Fargo Bank, National Association, as Administrative Agent and Regions Bank, as Syndication Agent, for the lenders \(filed as Exhibit 10.1 to Current Report on Form 8-K, filed with the Commission on February 22, 2016, Commission File No. 000-23314, and incorporated herein by reference\).](#)
- 10.26 [Incremental Term Loan Agreement, dated as of June 15, 2017, by and among Tractor Supply Company, as Borrower, certain subsidiaries of the Company, certain lenders and Wells Fargo Bank, National Association, as Administrative Agent and Regions Bank, as Syndication Agent, for the lenders \(filed as Exhibit 10.1 to Current Report on Form 8-K, filed with the Commission on June 19, 2017, Commission File No. 000-23314, and incorporated herein by reference\).](#)
- 10.27 [Note Purchase and Private Shelf Agreement, dated August 14, 2017, by and among Tractor Supply Company, PGIM, Inc. \("Prudential"\) and certain of its affiliates \(the "Prudential Affiliates"\) party thereto \(filed as Exhibit 10.1 to Current Report on Form 8-K, filed with the Commission on August 16, 2017, Commission File No. 000-23314, and incorporated herein by reference\).](#)
- 10.28 [Form of Performance Share Unit Agreement for Officers under the Tractor Supply Company 2009 Stock Incentive Plan \(filed as Exhibit 10.33 to the Registrant's Annual Report on Form 10-K, filed with the Commission on February 22, 2018, Commission File No. 000-23314, and incorporated herein by reference\).](#)+

- 10.29 [Form of Performance Share Unit Agreement for the Chief Executive Officer under the Tractor Supply Company 2009 Stock Incentive Plan \(filed as Exhibit 10.34 to the Registrant's Annual Report on Form 10-K, filed with the Commission on February 22, 2018, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.30 [Tractor Supply Company 2018 Omnibus Incentive Plan \(filed as Exhibit A to Registrant's Proxy Statement on Schedule 14A for Registrant's Annual Meeting of Shareholders held on May 10, 2018, filed with the Commission on March 27, 2018, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.31 [Form of Nonqualified Stock Option Agreement under the Tractor Supply Company 2018 Omnibus Incentive Plan \(filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 9, 2018, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.32 [Form of Restricted Share Unit Agreement under the Tractor Supply Company 2018 Omnibus Incentive Plan \(filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 9, 2018, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.33 [Form of Performance Share Unit Agreement for Officers under the Tractor Supply Company 2018 Omnibus Incentive Plan \(filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q, filed with the Commission on August 9, 2018, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.34 [Form of Indemnification Agreement, by and between Tractor Supply Company and each of its executive officers and directors, dated November 8, 2018 \(filed as Exhibit 10.1 to Current Report on Form 8-K, filed with the Commission on November 14, 2018, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.35 [Form of Performance Share Unit Agreement for Officers under the Tractor Supply Company 2018 Omnibus Incentive Plan.+](#)
- 10.36 [Form of Performance Share Unit Agreement for Chief Executive Officer under the Tractor Supply Company 2018 Omnibus Incentive Plan.+](#)
- 10.37 [Form of Restricted Share Unit Agreement under the Tractor Supply Company 2018 Omnibus Incentive Plan.+](#)
- 10.38 [Form of Nonqualified Stock Option Agreement under the Tractor Supply Company 2018 Omnibus Incentive Plan.+](#)
- 10.39 [Change in Control Agreement, dated February 28, 2019, by and between Tractor Supply Company and each of Steve K. Barbarick, Kurt D. Barton, Benjamin F. Parrish, Jr., Robert D. Mills and Chad M. Frazell \(filed as Exhibit 10.1 to Current Report on Form 8-K, filed with the Commission on March 1, 2019, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.40 [Change in Control Agreement, dated May 31, 2019, by and between Tractor Supply Company and each of Jonathan Seth Estep and John Ordus \(filed as Exhibit 10.1 to Current Report on Form 8-K, filed with the Commission on May 31, 2019, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.41 [Second Amended and Restated Employment Agreement, dated August 22, 2019, by and between Tractor Supply Company and Gregory A. Sandfort \(filed as Exhibit 10.1 to Current Report on Form 8-K/A, filed with the Commission on August 23, 2019, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.42 [Transition Agreement, dated September 3, 2019, by and between Tractor Supply Company and Steve K. Barbarick \(filed as Exhibit 10.1 to Current Report on Form 8-K, filed with the Commission on September 6, 2019, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.43 [Tractor Supply Company Severance Plan \(filed as Exhibit 10.1 to Current Report on Form 8-K, filed with the Commission on November 12, 2019, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.44 [Employment Agreement, dated December 4, 2019, by and between Tractor Supply Company and Harry A. Lawton III \(filed as Exhibit 10.1 to Current Report on Form 8-K, filed with the Commission on December 6, 2019, Commission File No. 000-23314, and incorporated herein by reference\).+](#)
- 10.45 [Change in Control Agreement, dated December 4, 2019, by and between Tractor Supply Company and Harry A. Lawton III \(filed as Exhibit 10.2 to Current Report on Form 8-K, filed with the Commission on December 6, 2019, Commission File No. 000-23314, and incorporated herein by reference\).+](#)

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- 10.46 [Transition Agreement, dated December 17, 2019, by and between Tractor Supply Company and Gregory A. Sandfort \(filed as Exhibit 10.1 to Current Report on Form 8-K, filed with the Commission on December 20, 2019, Commission File No. 000-23314, and incorporated herein by reference\).](#)+
- 10.47 [Change in Control Agreement, dated February 12, 2020, by and between Tractor Supply Company and each of Colin Yankee and Christi Korzekwa \(filed as Exhibit 10.1 to Current Report on Form 8-K, filed with the Commission on February 13, 2020, Commission File No. 000-23314, and incorporated herein by reference\).](#)+
- 10.48* [Form of Performance Share Unit Agreement under the Tractor Supply Company 2018 Omnibus Incentive Plan.](#)+
- 10.49* [Form of Restricted Share Unit Agreement under the Tractor Supply Company 2018 Omnibus Incentive Plan.](#)+
- 21* [List of subsidiaries.](#)
- 23* [Consent of Ernst & Young LLP.](#)
- 31.1* [Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2* [Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32* [Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101.INS XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 104 The cover page from the Company's Annual Report on Form 10-K for the year ended December 28, 2019, formatted in Inline XBRL (included in Exhibit 101).
- * Filed herewith
- + Management contract or compensatory plan or arrangement

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of December 28, 2019, Tractor Supply Company had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our common stock.

In this Exhibit 4.2, when we refer to the "Company," "we," "us" or "our" or when we otherwise refer to ourselves, we mean Tractor Supply Company, excluding, unless otherwise expressly stated, our subsidiaries and affiliates.

The following description is a summary of the material terms of our Restated Certificate of Incorporation (the "Certificate of Incorporation") and our Fifth Amended and Restated By-laws (the "By-laws") as currently in effect. This description is subject to, and qualified in its entirety by reference to, our Certificate of Incorporation and our By-laws, each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.2 is a part. We encourage you to read our Certificate of Incorporation, our By-laws and the applicable provisions of the Delaware General Corporation Law ("DGCL"), for additional information.

Authorized Capital

As of December 28, 2019, our authorized capital stock consisted of 400,000,000 shares of common stock, par value \$.008 per share, and 40,000 shares of preferred stock, par value \$1.00 per share, of which 20,000 is designated Series B Preferred Stock.

Common Stock

Voting Rights. Under the terms of the Certificate of Incorporation, each holder of common stock is entitled to one vote for each share on all matters submitted to a vote of the stockholders, including the election of directors. Our stockholders do not have cumulative voting rights. Because of this, the holders of a majority of the shares of common stock entitled to vote and present in person or by proxy at any annual meeting of stockholders are able to elect all of the directors standing for election, if they should so choose.

Dividends. Subject to preferences that may be applicable to any then outstanding preferred stock, holders of common stock are entitled to receive ratably those dividends, if any, as may be declared from time to time by the Board of Directors out of legally available assets or funds.

Liquidation. In the event of our liquidation, dissolution, or winding up, holders of common stock are entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any outstanding shares of preferred stock.

Rights and Preferences. Holders of common stock have no preemptive or conversion rights, and there are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences, and privileges of the holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock, which we may designate in the future.

Board of Directors

The By-laws provide for a Board of Directors of not less than one member, the exact number to be determined from time to time by resolution adopted by the affirmative vote of a majority of the total number of directors then in office. The By-laws provide that directors will be elected to hold office for a term expiring at the next annual meeting of stockholders or until a successor is duly elected and qualified or until his or her earlier resignation or removal. In uncontested director elections each director is elected by the vote of the majority of the votes cast; provided, however, that in a contested election, the directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. An incumbent nominee not receiving a majority of the votes cast in an uncontested election shall promptly tender his or her offer of resignation to the Board of Directors for its consideration if such director has not previously submitted a

conditional offer of resignation. A recommendation on whether or not to accept such resignation offer shall be made by a committee of independent directors that has been delegated the responsibility of recommending nominees for director for appointment or election to the Board of Directors, or (1) if each member of such committee did not receive the required majority vote or (2) if no such committee has been appointed, a majority of the Board of Directors shall appoint a special committee of independent directors for such purpose of making a recommendation to the Board of Directors. If no independent directors received the required majority vote, the Board of Directors shall act on the resignation offers.

Amendment to By-laws

The Certificate of Incorporation and By-laws provide that the Board of Directors is expressly authorized to alter, amend or repeal the By-laws of the Company by the affirmative vote of a majority of the total number of directors then in office. Any amendment, alteration, change, addition or repeal of the By-laws of the Company by the stockholders of the Company shall require the affirmative vote of the holders of at least a majority of the outstanding shares of the Company, voting together as a class, entitled to vote on such amendment, alteration, change, addition or repeal.

Amendment to Certificate of Incorporation

The Certificate of Incorporation provides that, except where a Supermajority Vote (as defined below) is required, the affirmative vote of the holders of at least a majority of the outstanding stock entitled to vote thereon, voting together in a single class, is required to adopt any provision inconsistent with, to amend or repeal any provision of, or to adopt a bylaw inconsistent with certain specified provisions of the Certificate of Incorporation. The affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then-outstanding shares of the voting stock, voting together as a single class (a "Supermajority Vote"), shall be required to amend, alter, change or repeal any provision of the Certificate of Incorporation related to (a) the number of directors constituting the Board of Directors as set forth in the By-laws; (b) the election of directors at each annual meeting and that such directors will hold office for a term expiring at the next annual meeting or until their successors are elected and qualified or until their earlier resignation or removal; (c) the authority of the Board of Directors to make, alter, amend or repeal the By-laws; (d) the fact that the election of the directors need not be by written ballot; and (e) that advance notice of stockholder nominations for the election of directors and of business to be brought by the stockholders before any meeting of the stockholders shall be given in the manner provided in the By-laws.

Special Meetings of Stockholders

The By-laws provide that special meetings of stockholders of the Company may be called only by Chairman of the Board of Directors, the Chief Executive Officer, the President or, at the direction of a majority of the Board of Directors, the Secretary.

Action on Written Consent

Pursuant to the Certificate of Incorporation and the By-laws, any action required by law or the By-laws to be taken at any annual or special meeting of stockholders of the Company may be taken without a meeting, without prior notice and without a vote if a consent or consents in writing, setting forth the action so taken, are signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and are delivered to the Company as required by law. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not so consented in writing.

Advance Notice Requirements for Stockholder Proposals and Director Nominations

Our By-laws provide that stockholders seeking to nominate candidates for election as directors or to bring business before an annual or special meeting of stockholders must provide timely notice of their proposal in writing to the secretary of the Company. Generally, to be timely, a stockholder's notice must be delivered to, mailed and received at our principal executive offices, addressed to the secretary of the Company, and within the following time periods:

- in the case of an annual meeting, no earlier than 120 days and no later than 90 days prior to the first anniversary of the date of the preceding year's annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the date of the current year's annual meeting shall have been changed by more than 30 days from the anniversary date of the previous year's annual meeting, to be timely notice by the stockholder must be received by the Company not later than the later of (i) the ninetieth day prior to such current year's annual meeting or (ii) the tenth day following (1) the day on which the notice containing the date of the current year's annual meeting is provided by the Company or (2) public disclosure of the current year's annual meeting date was made, whichever first occurs; provided further, however, that any such notice which is received later than the fifth business day prior to the meeting may be disregarded; and
- in the case of a nomination of a person or persons for election to the Board of Directors at a special meeting of the stockholders called for the purpose of electing directors, not earlier than the 120th day prior to such special meeting and not later than the later of (i) the ninetieth day prior to such special meeting or (ii) the tenth day following (1) the day on which the notice containing the date of the special meeting is provided by the Company or (2) public disclosure of the special meeting date was made, whichever first occurs; provided, however, that any such notice which is received later than the fifth business day prior to the meeting may be disregarded.

In no event shall any adjournment, postponement or deferral, or public disclosure of an adjournment, postponement or deferral, of a meeting of the stockholders commence a new time period (or extend any time period) for the giving of the stockholder's notice.

We have also adopted a proxy access right that permits a stockholder, or a group of up to 20 stockholders, owning continuously for at least three years shares of our stock representing an aggregate of at least 3% of the outstanding shares of common stock, to nominate and include in our proxy materials a number of director nominees constituting the greater of (i) 20% of the total number of directors of the Company on the last day on which a nomination notice may be submitted pursuant to Section 1.2 of the Certificate of Incorporation (rounded down to the nearest whole number) and (ii) two nominees, provided that the stockholder(s) and the nominee(s) satisfy the requirements in our By-laws. Under our By-laws, to be considered timely, compliant notice of proxy access director nominations for next year's proxy statement and form of proxy must be submitted to the Corporate Secretary at the principal executive address of the Company no earlier than 150 days and no later than 120 days prior to the first anniversary of the date the Company provided or made available its definitive proxy statement for the preceding year's annual meeting; provided, however, that if the annual meeting is not within 30 days before or after the anniversary date of the preceding year's annual meeting, to be timely the stockholder notice must be received no later than 180 days prior to such annual meeting or the tenth day after the day on which notice of the date of the meeting was first publicly announced or disclosed.

Authorized but Unissued Capital Stock

Our Certificate of Incorporation authorizes our Board of Directors, without further action by the stockholders and subject to any limitations imposed by the listing standards of The Nasdaq Global Select Market, to issue up to 40,000 shares of preferred stock, par value \$1.00 per share, in one or more classes or series, to establish from time to time the number of shares to be included in each such class or series, to fix the rights, powers and preferences of the shares of each such class or series and any qualifications, limitations, or restrictions thereon.

Delaware law does not require stockholder approval for any issuance of authorized shares. These additional shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions.

One of the effects of the existence of unissued and unreserved common stock or preferred stock may be to enable our Board of Directors to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of our company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management and possibly deprive the stockholder of opportunities to sell their shares of common stock at prices higher than prevailing market prices.

Limitation on Directors' Liability and Indemnification

Section 145(a) of the DGCL grants each corporation organized thereunder the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement that were actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the person's conduct was unlawful.

Section 145(b) of the DGCL grants each corporation organized thereunder the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made pursuant to Section 145(b) of the DGCL in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 145(c) of the DGCL provides that to the extent that a present or former director or officer of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 145(a) and (b) of the DGCL, as described in the preceding paragraphs, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 145(g) of the DGCL provides, in general, that a corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation against any liability asserted against the person in any such capacity, or arising out of the person's status as such, regardless of whether the corporation would have the power to indemnify the person against such liability under the provisions of the DGCL.

Section 102(b)(7) of the DGCL enables a corporation in its certificate of incorporation, or an amendment thereto, to eliminate or limit the personal liability of a director to the corporation or its stockholders of monetary damages for violations of the directors' fiduciary duty of care as a director, except (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the DGCL (providing for director liability in the event of unlawful payment of dividends or unlawful stock purchases or redemptions) or (iv) for any transaction from which a director derived an improper personal benefit. Our Certificate of Incorporation

indemnifies the directors and officers to the full extent of the DGCL and also allows the Board of Directors to indemnify all other employees. Such right of indemnification is not exclusive of any right to which such officer or director may be entitled as a matter of law and shall extend and apply to the estates, heirs, executors and administrators of such persons.

We maintain a directors' and officers' insurance policy. The policy insures directors and officers against losses arising from certain wrongful acts in their capacities as directors and officers and reimburses us for those losses for which we have lawfully indemnified the directors and officers. The policy contains various exclusions that are normal and customary for policies of this type.

We believe that our Certificate of Incorporation, By-laws and insurance policies are necessary to attract and retain qualified persons to serve as directors and officers of the Company.

The limitation of liability and indemnification provisions in our Certificate of Incorporation and By-laws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against directors and officers, even though an action, if successful, might benefit us and other stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers as required or allowed by these indemnification provisions.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Delaware Anti-Takeover Statutes

Certain Delaware law provisions may make it more difficult for someone to acquire us through a tender offer, proxy contest or otherwise.

Section 203 of the DGCL provides that, subject to certain stated exceptions, an "interested stockholder" is any person (other than the corporation and any direct or indirect majority-owned subsidiary) who owns 15% or more of the outstanding voting stock of the corporation or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period immediately prior to the date of determination, and the affiliates and associates of such person. A corporation may not engage in a business combination with any interested stockholder for a period of three years following the time that such stockholder became an interested stockholder unless:

- prior to such time the board of directors of the corporation approved either the business combination or transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding shares owned by (i) persons who are directors and also officers and (ii) employee stock plans in which participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to such time, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

The effect of these provisions may make a change in control of our business more difficult by delaying, deferring or preventing a tender offer or other takeover attempt that a stockholder might consider in its best interest. This includes attempts that might result in the payment of a premium to stockholders over the market price for their shares. These provisions also may promote the continuity of our management by making it more difficult for a person to remove or change the incumbent members of the board of directors.

Transfer Agent and Registrar

Computershare Trust Company, N.A. is the transfer agent and registrar for our common stock.

Listing

Our common stock is listed on the Nasdaq Global Select Market under the symbol “TSCO.”

**Tractor Supply Company
Performance Share Unit Agreement**

This PERFORMANCE SHARE UNIT AGREEMENT (this “Agreement”) is made and entered into as of _____ (the “Grant Date”), between Tractor Supply Company, a Delaware corporation (together with its Subsidiaries and Affiliates, as applicable, the “Company”), and _____ (the “Grantee”). Capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the Company’s 2018 Omnibus Incentive Plan (the “Plan”).

WHEREAS, the Company has adopted the Plan, which permits the issuance of Performance Awards, including an award that provides the right to receive Shares upon the satisfaction of performance objectives or other conditions (a “Performance Share Unit”); and

WHEREAS, the Compensation Committee of the Board of Directors of the Company or a subcommittee thereof (or if no such committee is appointed, the Board of Directors of the Company) (each, the “Committee”) has determined that Grantee is entitled to an award of Performance Share Units under the Plan;

NOW, THEREFORE, the parties hereto agree as follows:

1. Grant of Performance Share Unit Award.

1.1 The Company hereby grants to the Grantee the award (“Award”) of Performance Share Units (“PSUs”) set forth above on the terms and conditions set forth in this Agreement and as otherwise provided in the Plan. A bookkeeping account will be maintained by the Company to keep track of the PSUs.

1.2 The Grantee’s rights with respect to the Award shall remain forfeitable at all times prior to the dates on which the PSUs shall vest in accordance with Section 2 hereof. Except as otherwise determined by the Committee, this Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by Grantee other than by will or the laws of descent and distribution. Any sale, assignment, transfer, pledge, hypothecation, loan or other disposition other than in accordance with this Section 1.2 shall be null and void.

2. Vesting and Payment.

2.1 General. Except as provided in Section 2.2, Section 2.3 or Section 2.4, the Award shall vest, if at all, 100% on the _____ anniversary of the Grant Date (the “Vesting Date”), but only if and to the extent: (x) the Company has achieved the performance targets over the period (the “Performance Period”) set forth on Exhibit A attached hereto, and (y) the Grantee has remained in service with the Company continuously until the Vesting Date. The number of PSUs that vest may be greater than or less than the Target Award, as more specifically set forth on Exhibit A.

2.2 Death; Disability.

(a) Notwithstanding Section 2.1, in the event the Grantee’s employment with the Company terminates prior to the Vesting Date on account of Grantee’s death, Grantee (or the Grantee’s estate) shall become vested in the number of PSUs that would have vested had Grantee

remained employed with the Company continuously until the Vesting Date; provided, that any PSUs that vest pursuant to this Section 2.2(a) shall not be settled until the Committee determines the number of PSUs that should vest based on the extent to which the performance targets will have been achieved in accordance with Exhibit A attached hereto.

(b) Notwithstanding Section 2.1, in the event the Grantee's employment with the Company terminates prior to the Vesting Date on account of Grantee's Permanent Disability, Grantee (or the Grantee's legal representative) shall become vested in the number of PSUs that would have vested had Grantee remained employed with the Company continuously until the Vesting Date; provided, that any PSUs that vest pursuant to this Section 2.2(b) shall not be settled until the Committee determines the number of PSUs that should vest based on the extent to which the performance targets will have been achieved in accordance with Exhibit A attached hereto. For purposes of this Agreement, "Permanent Disability" shall have the meaning set forth in the long-term disability plan of the Company.

2.3 Termination of Employment. Except as provided in Section 2.2, Section 2.4 or as otherwise provided by the Committee, if the Grantee's service as an employee of the Company terminates for any reason, the Grantee shall forfeit all rights with respect to all PSUs that are not vested on such date.

2.4 Change in Control. Upon the occurrence of a Change in Control,

(a) In the event the entity surviving the Change in Control (together with its Affiliates, the "Successor") assumes the Award granted hereby, (1) any in process Performance Periods shall end upon the date immediately preceding the Change in Control, (2) the number of PSUs that shall be eligible to vest shall be the Target Award, if the Change in Control occurs prior to the end of the Performance Period, (3) any PSUs that are eligible to vest pursuant to (2) above shall vest on the Vesting Date, provided the Grantee remains employed with the Successor until the Vesting Date, and (4) notwithstanding Section 2.3 or the immediately preceding clause (3) of this paragraph, in the event the Grantee's employment with the Successor is terminated without Cause by the Successor, or terminates for Good Reason by the Grantee or on account of Grantee's death, Disability, Retirement or Early Retirement, within one year following a Change in Control and prior to the Vesting Date, the number of PSUs otherwise eligible to vest pursuant to this paragraph shall immediately vest and be released to the Grantee (or Grantee's estate or other legal representative) upon the Grantee's termination of employment.

(b) In the event the Successor does not assume the Award granted hereby, a number of PSUs equal to the Target Award, if the Performance Period has not ended prior to the Change in Control, shall vest as of the effective date of the Change in Control and the appropriate number of Shares shall be released in accordance with Section 2.5.

(c) For purposes of this Agreement the following terms shall have the meaning set forth below:

(i) "Cause" means (A) Grantee's failure or refusal to carry out the lawful directions of the Company, which are reasonably consistent with the responsibilities of the Grantee's position; (B) a material act of dishonesty or disloyalty by Grantee related to the

business of the Company; (C) Grantee's conviction of a felony, a lesser crime against the Company, or any crime involving dishonest conduct; (D) Grantee's habitual or repeated misuse or habitual or repeated performance of the Grantee's duties under the influence of alcohol or controlled substances; or (E) any incident materially compromising the Grantee's reputation or ability to represent the Company with the public or any act or omission by the Grantee that substantially impairs the Company's business, good will or reputation.

(ii) "Change in Control" shall have the meaning provided in the Plan.

(iii) "Early Retirement" means any retirement with the express consent of the Company at or before the time of such retirement, from active employment with the Company prior to having reached the age of 55 and ten years of service with the Company, in accordance with any applicable early retirement policy of the Company then in effect or as may be approved by the Committee.

(iv) "Good Reason" means (A) a material reduction in a Grantee's position, authority, duties or responsibilities, (B) any reduction in a Grantee's annual base salary as in effect immediately prior to a Change in Control; (C) the relocation of the office at which the Grantee is to perform the majority of his or her duties following a Change in Control to a location more than 30 miles from the location at which the Grantee performed such duties prior to the Change in Control; or (D) the failure by the Company or the Successor to continue to provide the Grantee with benefits substantially similar in aggregate value to those enjoyed by the Grantee under any of the Company's pension, life insurance, medical, health and accident or disability plans in which Grantee was participating immediately prior to a Change in Control, unless the Grantee is offered participation in other comparable benefit plans generally available to similarly situated employees of the Company or its Successor after the Change in Control.

(v) "Retirement" means retirement of Grantee from active employment with the Company on or after such Grantee having reached the age of 55 and ten years of service with the Company.

2.5 Settlement. Grantee shall be entitled to settlement of the PSUs covered by this Agreement at the time that such PSUs vest pursuant to Section 2.1, Section 2.2 or Section 2.4, as applicable. Such settlement shall be made as promptly as practicable thereafter (but in no event after the thirtieth day following the date on which the PSUs vest), through the issuance to the Grantee (or to the executors or administrators of Grantee's estate in the event of the Grantee's death) of a stock certificate (or evidence such Shares have been registered in the name of the Grantee with the relevant stock agent) for a number of Shares equal to the number of such vested PSUs. Notwithstanding anything in this Agreement to the contrary, if Grantee's employment terminates for Cause prior to the date on which Shares are delivered, Grantee shall forfeit all of the PSUs.

2.6 Withholding Obligations. Except as otherwise provided by the Committee, upon the settlement of any PSUs subject to this Award, the Company shall reduce the number of Shares that would otherwise be issued to the Grantee upon settlement of the Award by a number of Shares having an aggregate Fair Market Value on the date of such issuance equal to the payment to satisfy the withholding tax obligation of the Company with respect to which the

Award is being settled, as determined by the Committee (but in no event greater than the maximum withholding rate applicable to wages of the Grantee).

3. Dividend Rights.

The Grantee shall not be entitled to any dividend equivalent rights in respect of the PSUs covered by this Award.

4. No Right to Continued Service.

Nothing in this Agreement or the Plan shall be interpreted or construed to confer upon the Grantee any right to continue service as an officer or employee of the Company.

5. Adjustments.

The provisions of Section 4.2 of the Plan are hereby incorporated by reference, and the PSUs are subject to such provisions. Any determination made by the Committee or the Board pursuant to such provisions shall be made in accordance with the provisions of the Plan and shall be final and binding for all purposes of the Plan and this Agreement.

6. Administration Subject to Plan.

The Grantee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof. The terms of this Agreement are governed by the terms of the Plan, and in the case of any inconsistency between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall govern. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Grantee, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award.

7. Modification of Agreement.

Subject to the restrictions contained in the Plan, the Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, the Award, prospectively or retroactively; provided that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would adversely affect the rights of the Grantee or any holder or beneficiary of the Award in more than a *de minimis* way shall not to that extent be effective without the consent of the Grantee, holder or beneficiary affected.

8. Section 409A.

Notwithstanding anything herein to the contrary, to the maximum extent permitted by applicable law, the settlement of the PSUs to be made to the Grantee pursuant to this Agreement is intended to qualify as a "short-term deferral" pursuant to Section 1.409A-1(b) (4) of the

Regulations and this Agreement shall be interpreted consistently therewith. However, under certain circumstances, settlement of the PSUs may not so qualify, and in that case, the Committee shall administer the grant and settlement of such PSUs in strict compliance with Section 409A of the Code. Further, notwithstanding anything herein to the contrary, if at the time of Grantee's termination of employment with the Company and all Service Recipients, the Grantee is a "specified employee" as defined in Section 409A of the Code, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of service is necessary in order to prevent the imposition of any accelerated or additional tax under Section 409A of the Code, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Grantee) to the minimum extent necessary to satisfy Section 409A of the Code until the date that is six months and one day following the Grantee's termination of employment with the Company (or the earliest date as is permitted under Section 409A of the Code), if such payment or benefit is payable upon a termination of employment. For purposes of this Agreement, a "termination of employment" shall have the same meaning as "separation from service" under Section 409A of the Code and Grantee shall be deemed to have remained employed so long as Grantee has not "separated from service" with the Company or Successor. Each payment of PSUs constitutes a "separate payment" for purposes of Section 409A of the Code.

Although the Company intends to administer this Performance Share Unit Agreement so that the Award will be exempt from, or will be interpreted and comply with, the requirements of Section 409A of the Code, the Company does not warrant that the Award made under this Performance Share Unit Agreement will qualify for favorable tax treatment under Section 409A of the Code or any other provision of federal, state, local or foreign law. The Company shall not be liable to the Grantee for any tax, interest, or penalties that Grantee might owe as a result of the Award made under this Performance Share Unit Agreement.

9. Severability.

If any provision of this Agreement is, or becomes, or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or the Award, or would disqualify the Plan or Award under any laws deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award, and the remainder of the Plan and Award shall remain in full force and effect.

10. Governing Law.

The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Tennessee without giving effect to the conflicts of law principles thereof, except to the extent that such laws are preempted by Federal law.

11. Successors in Interest.

This Agreement shall inure to the benefit of and be binding upon any successor to the Company. This Agreement shall inure to the benefit of the Grantee's legal representatives. All obligations imposed upon the Grantee and all rights granted to the Company under this Agreement shall be binding upon the Grantee's heirs, executors, administrators and successors.

12. Resolution of Disputes.

Any dispute or disagreement which may arise under, or as a result of, or in any way related to, the interpretation, construction or application of this Agreement shall be determined by the Committee. Any determination made hereunder shall be final, binding and conclusive on the Grantee and the Company for all purposes.

13. Notices.

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of its Secretary or its designee, and any notice to be given to the Grantee shall be addressed to him at the address (including an electronic address) then reflected in the Company's books and records. By a notice given pursuant to this Section 13, either party may hereafter designate a different address for notices to be given to him. Any notice, which is required to be given to the Grantee, shall, if the Grantee is then deceased, be given to the Grantee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section 13. Any notice shall have been deemed duly given when (i) delivered in person, (ii) delivered in an electronic form approved by the Company, (iii) enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service, or (iv) enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with fees prepaid) in an office regularly maintained by FedEx, UPS, or comparable non-public mail carrier.

IN WITNESS WHEREOF, the parties have caused this Performance Share Unit Agreement to be duly executed effective as of the day and year first above written.

Tractor Supply Company

By: _____

Grantee:

(electronically accepted)

RESTRICTED SHARE UNIT AGREEMENT

THIS RESTRICTED SHARE UNIT AGREEMENT, is made by and between Tractor Supply Company, a Delaware corporation hereinafter referred to as “Company,” and the above-referenced Participant (“Grantee”):

WHEREAS, the Company wishes to afford the Grantee the opportunity to acquire shares of Common Stock or their economic equivalent; and

WHEREAS, the Company wishes to carry out the Company’s 2018 Omnibus Incentive Plan (the “Plan”) (the terms of which are hereby incorporated by reference and made a part of this Restricted Share Unit Agreement); and

WHEREAS, the Compensation Committee of the Board of Directors (the “Committee”), appointed to administer the Plan, has determined that it would be to the advantage and best interest of the Company and its shareholders to grant Restricted Share Units, as defined in Section 2(x) of the Plan, provided for herein to the Grantee as an inducement to enter into or remain in the service of the Company or its Subsidiaries and as an incentive for increased efforts during such service, and has advised the Company thereof and instructed the undersigned officer to issue said Restricted Share Units;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

Section 1. Grant of Restricted Share Units

1.1 Grant of Restricted Share Units. In consideration of the Grantee’s agreement to provide services to the Company or its Subsidiaries, and for other good and valuable consideration, on the date listed hereof the Company irrevocably grants to the Grantee the number of Restricted Share Units set forth above, subject to the conditions described in Section 2 as well as the other provisions of this Restricted Share Unit Agreement and the terms of the Plan.

1.2 Adjustments in Restricted Share Units. The Committee shall make adjustments with respect to this Restricted Share Units grant in accordance with the provisions of Section 4.2 of the Plan.

Section 2. Vesting

2.1 Vesting of Restricted Share Units. Subject to Sections 2.2 and 2.3, the Restricted Share Units awarded under this Restricted Share Unit Agreement shall vest, if at all, 100% on the _____ anniversary of the date of this Restricted Share Unit Agreement (the “Normal Vesting Date”); provided, however, the Committee may determine, in its sole discretion, that certain Restricted Share Units may vest earlier than upon the ____ anniversary of the date of this Restricted Share Unit Agreement.

2.2 Acceleration of Vesting.

(a) In the event of a termination of employment resulting from a Grantee's death or Disability (as defined below), any unvested Restricted Share Units granted hereunder shall vest in full as of the date of such termination. For purposes of this Restricted Share Unit Agreement, "Disability" means a disability that would qualify as a total and permanent disability under the Company's then current long-term disability plan.

(b) Notwithstanding Section 2.1, unless otherwise provided in another contractual agreement between the Company and Grantee, if within one year following a Change in Control, the Grantee's employment with the Company (or its successor) is terminated by reason of (i) Retirement or Early Retirement, (ii) for Good Reason by the Grantee or (iii) involuntary termination by the Company for any reason other than for Cause, all Restricted Share Units granted hereunder shall vest in full as of the date of such termination.

2.3 Risk of Forfeiture. Subject to Sections 2.1 and 2.2 and unless otherwise provided in another contractual agreement between the Company and Grantee, upon a termination of employment with the Company, Grantee shall forfeit any non-vested Restricted Share Units.

2.4 Conditions to Issuance of Stock Certificates. Any shares of Company Stock deliverable upon the settlement of Restricted Share Units may be either previously authorized but unissued shares of Common Stock or issued shares of Common Stock which have then been reacquired by the Company. Such shares of Common Stock shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of Common Stock upon the settlement of Restricted Share Units or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed; and

(b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its sole discretion, deem necessary or advisable; and

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its sole discretion, determine to be necessary or advisable; and

(d) The receipt by the Company of full payment of all amounts which, under federal, state or local tax law, the Company (or Subsidiary) is required to withhold upon the settlement of the Restricted Share Units.

Section 3. Payment of Restricted Share Units and Election To Defer

3.1 Timing of Payment of Restricted Share Units. Subject to the Grantee's election under Section 3.3, Restricted Share Units shall be paid in accordance with the following:

(a) To the extent Restricted Share Units vest under Section 2.1, such Restricted Share Units shall be paid upon such Normal Vesting Date.

(b) To the extent Restricted Share Units vest under Section 2.2, such Restricted Share Units shall be paid upon termination of employment.

3.2 Form of Payment. Vested Restricted Share Units shall be paid in shares of Company Stock.

3.3 Election to Defer Payment.

(a) Subject to Section 3.3(b), the Grantee may irrevocably elect to defer payment of Restricted Share Units under Section 3.1 to either: (i) the date of the Grantee's termination of employment; or (ii) a date specified by the Grantee.

(b) All deferral elections made by the Grantee pursuant to this Section 3.3 shall be made in accordance with (i) the applicable election form provided by the Committee and (ii) Section 409A of the Internal Revenue Code of 1986, as amended from time to time (the "Code"). If the Grantee does not timely elect to defer the Restricted Share Units pursuant to this Section 3.3, then such shares shall be paid to Grantee in accordance with Section 3.1(a) or (b) of this Restricted Share Unit Agreement. If the Grantee elects to defer payment of Restricted Share Units to termination of employment, or if this Restricted Share Unit Agreement constitutes a "deferral of compensation" under Section 409A of the Code for any other reason, and at that time the Grantee is a specified employee as determined under Section 1.409A-1(i) of the Treasury Regulations and any of the Company's stock is publicly traded on an established securities market or otherwise at such time, then the delivery of vested Restricted Share Units shall not be made until the earlier of the Grantee's death or the first day of the seventh month following the Grantee's termination of employment (without interest for the delay in payment) in accordance with Section 409A(a)(2)(B)(i) of the Code.

(c) If the Grantee elects to defer payment to a specific date under paragraph (a) above and the Grantee should die prior to such specified date, then payment of the Grantee's vested Restricted Share Units shall be paid within 30 days of the Grantee's death, with the payment date determined by the Company in its sole discretion, to the Grantee's designated beneficiary and if the Grantee has not designated a beneficiary then to the Grantee's estate.

Section 4. Other Provisions

4.1 Administration. The Committee shall have the power to interpret the Plan and this Restricted Share Unit Agreement and to adopt such rules for the administration, interpretation, and application of the Plan as are consistent therewith and to interpret, amend, or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Grantee, the Company, and all other interested persons. No member of the Committee shall be personally liable for any action, determination, or interpretation made in good faith with respect to the Plan or the Restricted Share Units. In its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan and this Restricted Share Unit

Agreement except with respect to matters which under Rule 16b-3, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee.

4.2 Restricted Share Units Not Transferable. Neither the Restricted Share Units nor any interest or right therein or part thereof shall be sold, pledged, alienated, assigned, or otherwise transferred or encumbered other than by will or the laws of descent and distribution, unless and until the shares underlying such Restricted Share Units have been issued, and all restrictions applicable to such shares have lapsed. Neither the Restricted Share Units nor any interest or right therein or part thereof shall be liable for the debts, contracts, or engagements of the Grantee or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment, or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect.

4.3 Shares to Be Reserved. The Company shall at all times during the term of the Restricted Share Units reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of this Restricted Share Unit Agreement.

4.4 Notices. Any notice to be given under the terms of this Restricted Share Unit Agreement to the Company shall be addressed to the Company in care of its Secretary, and any notice to be given to the Grantee shall be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section 4.4, either party may hereafter designate a different address for notices to be given to him. Any notice which is required to be given to the Grantee shall, if the Grantee is then deceased, be given to the Grantee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section 4.4. Any notice shall be deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

4.5 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Restricted Share Unit Agreement.

4.6 Construction. This Restricted Share Unit Agreement shall be administered, interpreted, and enforced under the internal laws of the State of Tennessee without regard to conflicts of laws thereof.

4.7 Severability. In the event that any provision of this Restricted Share Unit Agreement shall be held illegal, invalid, or unenforceable for any reason, such provision shall be fully severable, but shall not affect the remaining provisions of this Restricted Share Unit Agreement and this Restricted Share Unit Agreement shall be construed and enforced as if the illegal, invalid, or unenforceable provision had never been included herein.

4.8 Conformity to Securities Laws. The Grantee acknowledges that the Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including, without limitation, the applicable exemptive conditions of

Rule 16b-3. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Restricted Share Units are granted, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Restricted Share Unit Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

4.9 Withholding of Taxes. Company shall have the right to (i) make deductions from the number of shares of Common Stock otherwise deliverable to the Grantee under this Restricted Share Unit Agreement in an amount sufficient to satisfy withholding of any federal, state or local taxes required by law provided; that, such amount shall not exceed the applicable maximum statutory withholding requirements, or (ii) take such other action as may be necessary or appropriate to satisfy any such tax withholding obligations.

4.10 Electronic Delivery and Electronic Signature. Grantee hereby consents and agrees to electronic delivery of any Plan documents, proxy materials, annual reports, and other related documents. If the Company establishes procedures for an electronic signature system for delivery and acceptance of Plan documents (including documents relating to any programs adopted under the Plan), Grantee hereby consents to such procedures and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. Grantee consents and agrees that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan, including any program adopted under the Plan.

4.11 Inconsistencies between Plan Terms and Terms of Restricted Share Unit Agreement. If there is any inconsistency between the terms of this Restricted Share Unit Agreement and the terms of the Plan, the Plan's terms shall completely supersede and replace the conflicting terms of this Restricted Share Unit Agreement.

4.12 Grantee's Acknowledgements. By entering into this Agreement the Grantee agrees and acknowledges that (a) he has read a copy of the Plan, and accepts this grant of Restricted Share Units upon all of the terms thereof, and (b) no member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or this Agreement or any award thereunder or hereunder.

4.13 No Guarantee of Employment. Nothing in this Restricted Share Unit Agreement or in the Plan shall confer upon the Grantee any right to continue in the employ of the Company or any Subsidiary, or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which are hereby expressly reserved, to discharge the Grantee at any time for any reason whatsoever, with or without cause.

4.14 Amendments or Termination. Subject to the restrictions contained in the Plan, the Committee may waive any conditions or rights under, amend any terms of, or alter, suspend, discontinue, cancel or terminate, the Restricted Share Unit Agreement, prospectively or retroactively; provided that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would adversely affect the rights of the Grantee or any holder or beneficiary of the Restricted Share Units shall not to that extent be effective without the consent of the Grantee, holder or beneficiary affected. Notwithstanding any other provision of the Plan

or this Restricted Share Unit Agreement, the Company may terminate this Restricted Share Unit Agreement and either issue shares of Common Stock deliverable upon vesting hereunder or pay the Grantee cash for the Restricted Share Units based upon the Fair Market Value of the shares of Common Stock subject hereto at the time of such termination in accordance with Section 1.409A-3(j)(4)(ix) of the Treasury Regulations.

4.15 Section 409A. The parties acknowledge and agree that, to the extent applicable, this Restricted Share Unit Agreement shall be interpreted in accordance with, and the parties agree to use their best efforts to achieve timely compliance with, Section 409A of the Code and the Treasury Regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Grant Date. Notwithstanding any provision of this Restricted Share Unit Agreement to the contrary, in the event that the Company determines that any compensation or benefits payable or provided under this Restricted Share Unit Agreement may be subject to Section 409A of the Code, the Company, with the Grantee's consent, may adopt such limited amendments to this Restricted Share Unit Agreement and appropriate policies and procedures, including amendments and policies with retroactive effect, that the Company reasonably determines are necessary or appropriate to (i) exempt the compensation and benefits payable under this Restricted Share Unit Agreement from Section 409A of the Code and/or preserve the intended tax treatment of the compensation and benefits provided with respect to this Restricted Share Unit Agreement or (ii) comply with the requirements of Section 409A of the Code.

Notwithstanding any other provision of this Restricted Share Unit Agreement, to the extent the delivery of the shares represented by this Restricted Share Unit Agreement is treated as non-qualified deferred compensation subject to Section 409A of the Code, then no delivery of such shares shall be made upon the Grantee's termination of employment unless such termination of employment constitutes a "separation from service" within the meaning of Section 1.409A-1(h) of the Treasury Regulations.

Although the Company intends to administer this Restricted Share Unit Agreement so that the Award will be exempt from, or will be interpreted and comply with, the requirements of Section 409A of the Code, the Company does not warrant that the Award made under this Restricted Share Unit Agreement will qualify for favorable tax treatment under Section 409A of the Code or any other provision of federal, state, local or foreign law. The Company shall not be liable to the Grantee for any tax, interest, or penalties that Grantee might owe as a result of the Award made under this Restricted Share Unit Agreement.

4.16 Definitions. As used in this Restricted Share Unit Agreement the following terms shall have the meaning set forth below:

(a) "Cause" for termination by the Company of the Grantee's employment shall mean (i) Grantee's failure or refusal to carry out the lawful directions of the Company, which are reasonably consistent with the responsibilities of the Grantee's position; (ii) a material act of dishonesty or disloyalty by Grantee related to the business of the Company; (iii) Grantee's conviction of a felony, a lesser crime against the Company, or any crime involving dishonest conduct; (iv) Grantee's habitual or repeated misuse or habitual or repeated performance of the Grantee's duties under the influence of alcohol or controlled substances; or (v) any incident

materially compromising the Optionee's reputation or ability to represent the Company with the public or any act or omission by the Grantee that substantially impairs the Company's business, good will or reputation.

(b) "Change in Control" shall have the meaning provided in the Plan.

(c) "Early Retirement" shall mean retirement with the express consent of the Company at or before the time of such retirement, from active employment with the Company and any Subsidiary or Affiliate prior to having reached the age of 55 and ten years of service with the Company, in accordance with any applicable early retirement policy of the Company then in effect or as may be approved by the Committee.

(d) "Good Reason" means (i) a material reduction in a Grantee's position, authority, duties or responsibilities, (ii) any reduction in a Grantee's annual base salary as in effect immediately prior to a Change in Control; (iii) the relocation of the office at which the Grantee is to perform the majority of his or her duties following a Change in Control to a location more than 30 miles from the location at which the Grantee performed such duties prior to the Change in Control; or (iv) the failure by the Company or its successor to continue to provide the Grantee with benefits substantially similar in aggregate value to those enjoyed by the Grantee under any of the Company's pension, life insurance, medical, health and accident or disability plans in which Grantee was participating immediately prior to a Change in Control, unless the Grantee is offered participation in other comparable benefit plans generally available to similarly situated employees of the Company or its successor after the Change in Control.

(e) "Retirement" shall mean, retirement of Grantee from active employment with the Company or any of its Subsidiaries or Affiliates on or after such Grantee having reached the age of 55 and ten years of service with the Company.

IN WITNESS WHEREOF, this Restricted Share Unit Agreement has been executed and delivered by the parties hereto.
TRACTOR SUPPLY COMPANY

Subsidiaries

Jurisdiction of Organization

Tractor Supply Co. of Michigan, LLC	Michigan
Tractor Supply Co. of Texas, LP	Texas
Tractor Supply Company of Utah, LLC	Delaware
Dels Farm Supply, LLC	Delaware
TSC Purchasing LLC	Delaware
TSC Franklin DC, LLC	Delaware
TSC SSC Bond, LLC	Delaware
Petsense, LLC	Delaware

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement on Form S-8 (File No. 333-10699) pertaining to the Tractor Supply Company 1996 Associate Stock Purchase Plan,
- (2) Registration Statement on Form S-3 (File No. 333-35317) pertaining to the Tractor Supply Company Restated 401(k) Retirement Plan,
- (3) Registration Statement on Form S-8 (File No. 333-80619) pertaining to the Tractor Supply Company 1994 Stock Option Plan,
- (4) Registration Statement on Form S-8 (File No. 333-102768) pertaining to the Tractor Supply Company 2000 Stock Incentive Plan,
- (5) Registration Statement on Form S-8 (File No. 333-136502) pertaining to the Tractor Supply Company 2006 Stock Incentive Plan,
- (6) Registration Statement on Form S-8 (File No. 333-160968) pertaining to the Tractor Supply Company 2009 Stock Incentive Plan, and
- (7) Registration Statement on Form S-8 (File No. 333-225430) pertaining to the Tractor Supply Company 2018 Omnibus Incentive Plan;

of our reports dated February 20, 2020, with respect to the consolidated financial statements of Tractor Supply Company, and the effectiveness of internal control over financial reporting of Tractor Supply Company, included in this Annual Report (Form 10-K) of Tractor Supply Company for the year ended December 28, 2019.

/s/ Ernst & Young LLP

Nashville, Tennessee
February 20, 2020

CERTIFICATIONS

I, Harry A. Lawton III, certify that:

1. I have reviewed this annual report on Form 10-K of Tractor Supply Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2020

/s/ Harry A. Lawton III

Harry A. Lawton III

President and Chief Executive Officer

CERTIFICATIONS

I, Kurt D. Barton, certify that:

1. I have reviewed this annual report on Form 10-K of Tractor Supply Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2020

/s/ Kurt D. Barton

Kurt D. Barton

Executive Vice President - Chief Financial Officer and Treasurer

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. SECTION 1350)

In connection with the Annual Report (“Report”) of Tractor Supply Company (the “Company”) on Form 10-K for the fiscal year ended December 28, 2019, as filed with the Securities and Exchange Commission on the date hereof, we, Harry A. Lawton III, Chief Executive Officer, and Kurt D. Barton, Chief Financial Officer, of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 20, 2020

/s/ Harry A. Lawton III

Harry A. Lawton III
President and Chief Executive Officer

/s/ Kurt D. Barton

Kurt D. Barton
Executive Vice President - Chief Financial Officer and Treasurer