

TRACTOR SUPPLY CO /DE/

Form 10-Q/A

February 18, 2009

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q/A  
(Amendment No. 1)**

(Mark One)

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

For the quarterly period ended September 27, 2008

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number 000-23314  
TRACTOR SUPPLY COMPANY**

(Exact Name of Registrant as Specified in Its Charter)

Delaware

13-3139732

(State or Other Jurisdiction of  
Incorporation or Organization)

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

200 Powell Place, Brentwood, Tennessee

37027

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code: (615) 440-4000

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Class

Outstanding at October 25, 2008

Common Stock, \$.008 par value

36,242,479



**Table of Contents**

**EXPLANATORY NOTE**

*Overview*

This Amendment No. 1 to the Quarterly Report on Form 10-Q amends and restates items identified below with respect to the Form 10-Q for the period ended September 27, 2008 filed by Tractor Supply Company (the Company) with the Securities and Exchange Commission (the SEC) on November 4, 2008 (the Original Filing). The purpose of this amendment is to amend and restate the previously issued unaudited consolidated balance sheet, statements of income and statement of cash flows included in the Original Filing for the reasons described below and in Note 2 to the financial statements included in Item 1 (Financial Statements) included herein. Other than as set forth below, the items of the Original Filing continue to speak as of the date of the original filing date thereof, and the disclosures relating to such items are not being updated.

We encourage any user of this filing to review our current filings for the most accurate current information. This Amendment is being filed as a corrected historical document.

This Amendment amends and restates the information in Item 1 (Financial Statements), Item 2 (Management's Discussion and Analysis) and Item 4 (Controls and Procedures) of the Original Filing. This Amendment continues to describe conditions as of the date of the Original Filing, and the disclosures contained herein have not been updated to reflect events, results or developments that have occurred after the date of the Original Filing, or to modify or update those disclosures affected by subsequent events. Among other things, forward-looking statements made in the Original Filing have not been revised to reflect events, results or developments that have occurred or facts that have become known to us after the date of the Original Filing, and such forward-looking statements should be read in their historical context. This Amendment should be read in conjunction with the Company's filings made with the SEC subsequent to the Original Filing, including any amendments to those filings.

*Background*

We use the last-in, first out (LIFO) method of inventory costing. Quarterly inventory determinations under the LIFO method are based on assumptions as to projected year-end inventory levels and the rate of inflation for the year. We record an estimated LIFO provision each quarter and adjust the LIFO provision to the actual calculation at year-end.

We developed a new interim LIFO projection model at the beginning of fiscal 2008 in an effort to facilitate improved forecasting of both inventory mix and price inflation. At the end of fiscal 2008, an error was discovered in the LIFO projection model which resulted in an understatement of the inflation indices. As a result, the quarterly estimated LIFO reserve as of September 27, 2008 and the related charge to cost of merchandise sold for the three-month and nine-month periods ended September 27, 2008 was understated.

As a result of this restatement, we have identified a material weakness in internal control over financial reporting related to our process for estimating interim LIFO calculations and have concluded that our disclosure controls and procedures were not effective for the three-month and nine-month periods ended September 27, 2008 solely because of this restatement. We have implemented several procedures, including a correction of the projection model and expansion of management review of the interim calculations and assumptions, to remediate this weakness. See Part 1, Item 4, Controls and Procedures, for additional information regarding controls and procedures related to this material weakness.

**TRACTOR SUPPLY COMPANY  
INDEX**

|  | <b>Page No.</b> |
|--|-----------------|
| <b><u>Part I. Financial Information</u></b>  | 4               |
| <u>Item 1. Financial Statements</u>  | 4               |
| <u>Consolidated Balance Sheets – September 27, 2008 (restated, unaudited), December 29, 2007 and September 29, 2007 (unaudited)</u>                    | 4               |
| <u>Consolidated Statements of Income (unaudited) – For the Fiscal Three and Nine Months Ended September 27, 2008 (restated) and September 29, 2007</u> | 5               |
| <u>Consolidated Statements of Cash Flows (unaudited) – For the Fiscal Nine Months Ended September 27, 2008 (restated) and September 29, 2007</u>       | 6               |
| <u>Notes to Unaudited Consolidated Financial Statements</u>  | 7               |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>   | 12              |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>  | 18              |
| <u>Item 4. Controls and Procedures</u>   | 19              |
| <b><u>Part II. Other Information</u></b>   | 20              |
| <u>Item 1. Legal Proceedings</u>   | 20              |
| <u>Item 1A. Risk Factors</u>   | 20              |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 20              |
| <u>Item 3. Defaults Upon Senior Securities</u>   | 20              |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u>   | 20              |
| <u>Item 5. Other Information</u>   | 20              |
| <u>Item 6. Exhibits</u>  | 21              |
| <b><u>SIGNATURE</u></b>  | 21              |
| <u>Exhibit 31.1</u>  |                 |
| <u>Exhibit 31.2</u>  |                 |
| <u>Exhibit 32.1</u>  |                 |



**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

|   | September<br>27,<br>2008<br>(Restated)<br>(Unaudited) | December<br>29,<br>2007 | September<br>29,<br>2007<br>(Unaudited) |
|---|---|-------------------------|---|
| <b>ASSETS</b>   |   |                         |   |
| Current assets:   |   |                         |   |
| Cash and cash equivalents                               | \$ 16,583   | \$ 13,700               | \$ 14,723                               |
| Inventories   | 703,040   | 635,988                 | 699,312                                 |
| Prepaid expenses and other current assets               | 40,504  | 41,959                  | 43,942                                  |
| Deferred income taxes                                   | 2,923   | 277                     | 1,061                                   |
| Total current assets                                    | 763,050   | 691,924                 | 759,038                                 |
| Property and equipment, net of accumulated depreciation | 357,270   | 332,928                 | 331,760                                 |
| Goodwill  | 10,258  | 10,258                  | 10,258                                  |
| Deferred income taxes                                   | 17,398  | 16,692                  | 15,829                                  |
| Other assets  | 6,183   | 6,169                   | 5,720                                   |
| Total assets  | \$ 1,154,159  | \$ 1,057,971            | \$ 1,122,605                            |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>              |   |                         |   |
| Current liabilities:                                    |   |                         |   |
| Accounts payable  | \$ 366,138  | \$ 258,346              | \$ 281,209                              |
| Other accrued expenses                                  | 107,953   | 115,601                 | 111,450                                 |
| Current portion of capital lease obligations            | 545   | 847                     | 803                                     |
| Income taxes currently payable                          | 962   | 5,062                   |   |
| Total current liabilities                               | 475,598   | 379,856                 | 393,462                                 |
| Revolving credit loan                                   | 23,138  | 55,000                  | 88,552                                  |
| Capital lease obligations, less current maturities      | 1,960   | 2,351                   | 2,236                                   |
| Straight line rent liability                            | 36,281  | 30,886                  | 29,504                                  |
| Other long-term liabilities                             | 24,827  | 24,541                  | 24,026                                  |
| Total liabilities                                       | 561,804   | 492,634                 | 537,780                                 |
| Stockholders equity:                                    |   |                         |   |

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|  |              |              |              |
|--|--------------|--------------|--------------|
| Preferred stock, 40,000 shares authorized, \$1.00 par value;<br>no shares issued   |              |              |              |
| Common stock, 100,000,000 shares authorized; \$.008 par<br>value; 40,842,839 shares issued and 36,346,447 shares<br>outstanding at September 27, 2008, 40,700,209 shares issued<br>and 37,484,022 shares outstanding at December 29, 2007<br>and 40,571,265 shares issued and 38,706,651 shares<br>outstanding at September 29, 2007 | 327          | 326          | 325          |
| Additional paid-in capital   | 163,616      | 151,317      | 145,698      |
| Treasury stock at cost, 4,496,392 shares at September 27,<br>2008, 3,216,187 shares at December 29, 2007 and 1,864,614<br>shares at September 29, 2007   | (192,549)    | (150,049)    | (94,924)     |
| Retained earnings  | 620,961      | 563,743      | 533,726      |
| Total stockholders equity  | 592,355      | 565,337      | 584,825      |
| Total liabilities and stockholders equity  | \$ 1,154,159 | \$ 1,057,971 | \$ 1,122,605 |

The accompanying notes are an integral part of this statement.



Table of Contents

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

|  | For the fiscal<br>three months ended                             |                          | For the fiscal<br>nine months ended                              |                          |
|--|--|--------------------------|--|--------------------------|
|  | September<br>27,<br><br>2008<br>(Restated)<br><i>(Unaudited)</i> | September<br>29,<br>2007 | September<br>27,<br><br>2008<br>(Restated)<br><i>(Unaudited)</i> | September<br>29,<br>2007 |
| <b>Net sales</b>                             | \$ 733,918   | \$ 629,199               | \$ 2,208,453   | \$ 1,979,960             |
| Cost of merchandise sold                     | 515,722  | 430,552                  | 1,541,232  | 1,362,709                |
| <b>Gross margin</b>                          | 218,196  | 198,647                  | 667,221  | 617,251                  |
| Selling, general and administrative expenses | 176,774  | 156,078                  | 527,302  | 470,224                  |
| Depreciation and amortization                | 15,345   | 12,900                   | 44,725   | 37,270                   |
| <b>Operating income</b>                      | 26,077   | 29,669                   | 95,194   | 109,757                  |
| Interest (income) expense, net               | (69)   | 1,517                    | 1,727  | 3,046                    |
| <b>Income before income taxes</b>            | 26,146   | 28,152                   | 93,467   | 106,711                  |
| Income tax expense                           | 10,276   | 10,684                   | 36,249   | 40,487                   |
| <b>Net income</b>                            | \$ 15,870  | \$ 17,468                | \$ 57,218  | \$ 66,224                |
| <b>Net income per share basic</b>            | \$ 0.44  | \$ 0.45                  | \$ 1.54  | \$ 1.67                  |
| <b>Net income per share diluted</b>          | \$ 0.43  | \$ 0.44                  | \$ 1.52  | \$ 1.63                  |

The accompanying notes are an integral part of this statement.

**Table of Contents**

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

|   | <b>For the fiscal<br/> nine months ended<br/> September<br/> 27,<br/> 2008</b> |                    | <b>September 29,<br/> 2007</b> |
|---|--|--------------------|--------------------------------|
|   | <b>(Restated)</b>  | <b>(Unaudited)</b> |                                |
| <b>Cash flows from operating activities:</b>                                      |  |                    |                                |
| Net income  | \$ 57,218  | \$                 | 66,224                         |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                    |                                |
| Depreciation and amortization   | 44,725   |                    | 37,270                         |
| Gain on sale of property and equipment  | (62)   |                    | (68)                           |
| Stock compensation expense  | 9,192  |                    | 8,652                          |
| Deferred income taxes   | (3,352)  |                    | 5,249                          |
| Change in assets and liabilities:   |  |                    |                                |
| Inventories   | (67,052)   |                    | (104,461)                      |
| Prepaid expenses and other current assets   | 1,437  |                    | (6,547)                        |
| Accounts payable  | 107,792  |                    | 52,038                         |
| Other accrued expenses  | (7,648)  |                    | 188                            |
| Income taxes currently payable  | (4,100)  |                    | (11,550)                       |
| Other   | 5,455  |                    | 8,693                          |
| <br>Net cash provided by operating activities                                     | <br>143,605  |                    | <br>55,688                     |
| <br><b>Cash flows from investing activities:</b>                                  |  |                    |                                |
| Capital expenditures  | (68,828)   |                    | (68,363)                       |
| Proceeds from sale of property and equipment                                      | 250  |                    | 966                            |
| <br>Net cash used in investing activities   | <br>(68,578)   |                    | <br>(67,397)                   |
| <br><b>Cash flows from financing activities:</b>                                  |  |                    |                                |
| Borrowings under revolving credit agreement                                       | 517,382  |                    | 756,850                        |
| Repayments under revolving credit agreement                                       | (549,244)  |                    | (668,298)                      |
| Tax benefit on stock option exercises   | 413  |                    | 2,687                          |
| Principal payments under capital lease obligations                                | (693)  |                    | (834)                          |
| Repurchase of common stock  | (42,500)   |                    | (94,924)                       |
| Net proceeds from issuance of common stock  | 2,498  |                    | 4,558                          |
| <br>Net cash (used in) provided by financing activities                           | <br>(72,144)   |                    | <br>39                         |

|   |           |           |
|---|-----------|-----------|
| <b>Net increase (decrease) in cash and cash equivalents</b> | 2,883     | (11,670)  |
| Cash and cash equivalents at beginning of period            | 13,700    | 26,393    |
| Cash and cash equivalents at end of period                  | \$ 16,583 | \$ 14,723 |

**Supplemental disclosures of cash flow information:**

Cash paid during the period for:

|              |          |          |
|--------------|----------|----------|
| Interest     | \$ 2,788 | \$ 2,087 |
| Income taxes | 43,023   | 47,010   |

The accompanying notes are an integral part of this statement.

Table of Contents

**TRACTOR SUPPLY COMPANY**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Basis of Presentation:**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 29, 2007. The results of operations for the fiscal three-month and nine-month periods are not necessarily indicative of results for the full fiscal year.

Our business is highly seasonal. Historically, our sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the sale of seasonal products. Unseasonable weather, excessive precipitation, drought, and early or late frosts may also affect our sales. We believe, however, that the impact of adverse weather conditions is somewhat mitigated by the geographic dispersion of our stores.

We experience our highest inventory and accounts payable balances during our first fiscal quarter each year for purchases of seasonal products in anticipation of the spring selling season and again during our third fiscal quarter in anticipation of the winter selling season.

**Note 2 Restatement and Reclassifications:****Restatement**

On January 16, 2009, management, with the concurrence of the Audit Committee of the Company's Board of Directors, concluded that the Company's previously issued unaudited financial statements for the three-month and nine-month periods ended September 27, 2008 contained a material misstatement and, accordingly, the related consolidated balance sheet, statements of income and statement of cash flows have been restated. We discovered an error in the estimate of the year-end LIFO reserve and the allocation of the interim expense to cost of merchandise sold for the previously reported interim periods then ended. We have corrected our accounting treatment related to the calculation and recognition of the interim LIFO provision.

The error in the LIFO calculation resulted in a restatement of certain line items in the consolidated balance sheet and statements of income. The restatement also impacted certain line items in the consolidated statement of cash flows from operating activities, but had no effect on total cash flows from operating activities and did not impact cash flows from investing or financing activities. The impact to the consolidated balance sheet and statements of income for the LIFO restatement is set forth in the following table:

|  | <b>As<br/>Originally<br/>Reported</b> | <b>Impact of<br/>Restatement<br/>Increase<br/>(Decrease)</b> | <b>As<br/>Restated</b> |
|--|---------------------------------------|--|------------------------|
| <b>Consolidated Balance Sheet:</b>         |                                       |  |                        |
| <b>September 27, 2008:</b>                 |                                       |  |                        |
| Inventory                                  | \$ 716,806                            | \$ (13,766)  | \$ 703,040             |
| Deferred income taxes                      |                                       | 2,923  | 2,923                  |
| Total current assets                       | 773,893                               | (10,843)   | 763,050                |
| Total assets                               | 1,165,002                             | (10,843)   | 1,154,159              |
| Deferred tax liabilities                   | 2,434                                 | (2,434)  |                        |
| Total current liabilities                  | 478,032                               | (2,434)  | 475,598                |
| Total liabilities                          | 564,238                               | (2,434)  | 561,804                |
| Retained earnings                          | 629,370                               | (8,409)  | 620,961                |
| Stockholders' equity                       | 600,764                               | (8,409)  | 592,355                |
| Total liabilities and stockholders' equity | \$ 1,165,002                          | \$ (10,843)  | \$ 1,154,159           |



**Table of Contents**

|  | <b>As<br/>Originally<br/>Reported</b> | <b>Impact of<br/>Restatement<br/>Increase<br/>(Decrease)</b> | <b>As<br/>Restated</b> |
|--|---------------------------------------|--|------------------------|
| <b>Consolidated Statements of Income:</b>            |                                       |  |                        |
| <b>Fiscal Three Months Ended September 27, 2008:</b> |                                       |  |                        |
| Cost of merchandise sold                             | \$ 509,312                            | \$ 6,410   | \$ 515,722             |
| Gross margin   | 224,606                               | (6,410)  | 218,196                |
| Operating income                                     | 32,487                                | (6,410)  | 26,077                 |
| Income before income taxes                           | 32,556                                | (6,410)  | 26,146                 |
| Income tax expense                                   | 12,795                                | (2,519)  | 10,276                 |
| Net income   | 19,761                                | (3,891)  | 15,870                 |
| Net income per share:                                |                                       |  |                        |
| Basic  | \$ 0.54                               | \$ (0.10)  | \$ 0.44                |
| Diluted  | \$ 0.53                               | \$ (0.10)  | \$ 0.43                |
| <b>Fiscal Nine Months Ended September 27, 2008:</b>  |                                       |  |                        |
| Cost of merchandise sold                             | \$ 1,527,466                          | \$ 13,766  | \$ 1,541,232           |
| Gross margin   | 680,987                               | (13,766)   | 667,221                |
| Operating income                                     | 108,960                               | (13,766)   | 95,194                 |
| Income before income taxes                           | 107,233                               | (13,766)   | 93,467                 |
| Income tax expense                                   | 41,606                                | (5,357)  | 36,249                 |
| Net income   | 65,627                                | (8,409)  | 57,218                 |
| Net income per share:                                |                                       |  |                        |
| Basic  | \$ 1.77                               | \$ (0.23)  | \$ 1.54                |
| Diluted  | \$ 1.74                               | \$ (0.22)  | \$ 1.52                |

**Reclassifications**

Certain amounts in previously issued financial statements have been reclassified to conform to the fiscal 2008 presentation. Cash balances in our bank concentration account at September 29, 2007 have been reclassified and netted against the related book overdraft included in accounts payable in the Consolidated Balance Sheets.

**Note 3 Inventories:**

Inventories are stated using the lower of last-in, first-out (LIFO) cost or market. Inventories are not in excess of market value. Quarterly inventory determinations under LIFO are based on assumptions as to projected inventory levels at the end of the fiscal year, sales for the year and the expected rate of inflation/deflation for the year. If the first-in, first-out (FIFO) cost method of accounting for inventory had been used, inventories would have been approximately \$48.0 million, \$25.5 million and \$23.0 million higher than reported at September 27, 2008, December 29, 2007 and September 29, 2007, respectively.

**Note 4 Property and Equipment:**

Property and equipment is comprised as follows:

| <b>September<br/>27,<br/>2008</b> | <b>December<br/>29,<br/>2007</b> | <b>September<br/>29,<br/>2007</b> |
|-----------------------------------|----------------------------------|-----------------------------------|
|-----------------------------------|----------------------------------|-----------------------------------|

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|   |            |            |            |
|---|------------|------------|------------|
| Land                                      | \$ 25,410  | \$ 23,151  | \$ 23,151  |
| Buildings and improvements                | 305,662    | 279,313    | 270,701    |
| Furniture, fixtures and equipment         | 192,423    | 175,941    | 167,314    |
| Computer software and hardware            | 68,802     | 61,732     | 50,769     |
| Construction in progress                  | 24,477     | 10,006     | 26,191     |
|   | 616,774    | 550,143    | 538,126    |
| Accumulated depreciation and amortization | (259,504)  | (217,215)  | (206,366)  |
|   | \$ 357,270 | \$ 332,928 | \$ 331,760 |

**Table of Contents****Note 5 Share-Based Payments:**

Pursuant to Statement of Financial Accounting Standards ( SFAS ) No. 123(R), Share-Based Payments ( SFAS 123(R) ) we recognize compensation expense for share-based payments based on the fair value of the awards. Share-based payments include stock option grants and certain transactions under our other stock plans. SFAS 123(R) requires share-based compensation expense to be based on the following: a) grant date fair value estimated in accordance with the original provisions of SFAS 123 for unvested options granted prior to the adoption of SFAS 123(R); b) grant date fair value estimated in accordance with the provisions of SFAS 123(R) for all share-based payments granted subsequent to adoption; and c) the discount on shares sold to employees subsequent to adoption, which represents the difference between the grant date fair value and the employee purchase price. Share-based compensation expense lowered pre-tax income by \$3.0 million and \$2.9 million for the third quarter of fiscal 2008 and 2007, respectively, and \$9.2 million and \$8.7 million for the first nine months of fiscal 2008 and 2007, respectively. The benefits of tax deductions in excess of recognized compensation expense are reported as a financing cash flow.

Under SFAS 123(R), forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

*Stock Incentive Plan*

Under our 2006 Stock Incentive Plan, options may be granted to officers, non-employee directors and other employees. The per share exercise price of options granted shall not be less than the fair market value of the stock on the date of grant and such options will expire no later than ten years from the date of grant. Also, the aggregate fair market value of the stock with respect to which incentive stock options are exercisable on a tax deferred basis for the first time by an individual in any calendar year may not exceed \$100,000. Vesting of options commences at various anniversary dates following the dates of grant.

The fair value of each option grant is separately estimated for each grant date. The fair value of each option is recognized as compensation expense ratably over the vesting period. We have estimated the fair value of all stock option awards as of the date of the grant by applying a modified *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, including expected stock price volatility.

The following summarizes information concerning stock option grants during fiscal 2008 and 2007:

|                                 | <b>Three months ended</b> |                  | <b>Nine months ended</b> |                  |
|---------------------------------|---------------------------|------------------|--------------------------|------------------|
|                                 | <b>September</b>          | <b>September</b> | <b>September</b>         | <b>September</b> |
|                                 | <b>27,</b>                | <b>29,</b>       | <b>27,</b>               | <b>29,</b>       |
|                                 | <b>2008</b>               | <b>2007</b>      | <b>2008</b>              | <b>2007</b>      |
| Stock options granted           | 38,676                    | 12,250           | 623,550                  | 449,700          |
| Weighted average exercise price | \$ 38.59                  | \$ 48.08         | \$ 38.29                 | \$ 46.49         |
| Weighted average fair value     | \$ 15.05                  | \$ 19.67         | \$ 14.53                 | \$ 19.57         |

The weighted average key assumptions used in determining the fair value of options granted in the three and nine months ended September 27, 2008 and September 29, 2007 are as follows:

|  | <b>Three months ended</b> |                  | <b>Nine months ended</b> |                  |
|--|---------------------------|------------------|--------------------------|------------------|
|  | <b>September</b>          | <b>September</b> | <b>September</b>         | <b>September</b> |
|  | <b>27,</b>                | <b>29,</b>       | <b>27,</b>               | <b>29,</b>       |
|  | <b>2008</b>               | <b>2007</b>      | <b>2008</b>              | <b>2007</b>      |
| Expected price volatility                | 38.6%                     | 41.6%            | 38.5%                    | 41.6%            |
| Risk-free interest rate                  | 3.3%                      | 4.9%             | 2.9%                     | 4.7%             |
| Weighted average expected lives in years | 5.0                       | 4.4              | 4.9                      | 4.7              |
| Forfeiture rate                          | 5.4%                      | 6.1%             | 5.7%                     | 5.2%             |
| Dividend yield                           | 0.0%                      | 0.0%             | 0.0%                     | 0.0%             |





**Table of Contents**

As of September 27, 2008, total unrecognized compensation expense related to non-vested stock options and restricted stock units was \$15.8 million with a weighted average expense recognition period of 1.44 years.

*Restricted Stock Units*

During the first nine months of 2008 and 2007, we issued 84,458 and 63,389 restricted stock units which vest over an approximate three-year term and had a grant date weighted average fair value of \$38.21 and \$46.49, respectively.

*Employee Stock Purchase Plan*

We have an Employee Stock Purchase Plan (the ESPP) whereby eligible employees have the opportunity to purchase, through payroll deductions, shares of our common stock at a 15% discount. Pursuant to the terms of the ESPP, we issued 44,185 and 34,477 shares of our common stock during the first nine months of fiscal 2008 and 2007, respectively. Total stock compensation expense related to the ESPP was approximately \$370,000 and \$433,000 during the first nine months of 2008 and 2007, respectively. At September 27, 2008, there were 3,255,218 shares of common stock reserved for future issuance under the ESPP.

There were no modifications to our share-based compensation plans during the nine months ended September 27, 2008.

**Note 6 Net Income Per Share:**

We present both basic and diluted earnings per share (EPS) on the face of the consolidated statements of income. As provided by SFAS 128 Earnings per Share, basic EPS is calculated as income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted EPS is calculated using the weighted average outstanding common shares and the treasury stock method for options and restricted stock.

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

|  | Three months ended<br>September 27, 2008 |        |                     | Three months ended<br>September 29, 2007 |        |                     |
|--|--|--------|---------------------|--|--------|---------------------|
|  | Income                                   | Shares | Per Share<br>Amount | Income                                   | Shares | Per Share<br>Amount |
| <i>Basic net income per share:</i>                         |  |        |                     |  |        |                     |
| Net income   | \$ 15,870                                | 36,429 | \$ 0.44             | \$ 17,468                                | 38,972 | \$ 0.45             |
| Dilutive stock options and<br>restricted stock outstanding |  | 645    | (0.01)              |  | 841    | (0.01)              |
| <i>Diluted net income per share:</i>                       |  |        |                     |  |        |                     |
| Net income   | \$ 15,870                                | 37,074 | \$ 0.43             | \$ 17,468                                | 39,813 | \$ 0.44             |
| <br>   |  |        |                     |  |        |                     |
|  | Nine months ended<br>September 27, 2008  |        |                     | Nine months ended<br>September 29, 2007  |        |                     |
|  | Income                                   | Shares | Per Share<br>Amount | Income                                   | Shares | Per Share<br>Amount |
| <i>Basic net income per share:</i>                         |  |        |                     |  |        |                     |
| Net income   | \$ 57,218                                | 37,045 | \$ 1.54             | \$ 66,224                                | 39,606 | \$ 1.67             |
| Dilutive stock options and<br>restricted stock outstanding |  | 632    | (0.02)              |  | 933    | (0.04)              |
| <i>Diluted net income per share:</i>                       |  |        |                     |  |        |                     |
| Net income   | \$ 57,218                                | 37,677 | \$ 1.52             | \$ 66,224                                | 40,539 | \$ 1.63             |



**Table of Contents****Note 7 Credit Agreement:**

We are party to a Senior Credit Facility with Bank of America, N.A., as agent for a lender group, which provides for borrowings up to \$350 million (with sublimits of \$75 million and \$20 million for letters of credit and swingline loans, respectively). In February 2008, we exercised the Increase Option on this facility, increasing the overall capacity from \$250 million to \$350 million. Simultaneously, the Credit Facility was modified to: (1) add an additional Increase Option for \$150 million (subject to additional lender group commitments); (2) modify the definition of swingline committed amount from \$10 million to \$20 million; and (3) revise the definition of the fixed charge coverage ratio covenant to remove certain defined charges. All pricing terms and the term of the facility remained the same.

The Senior Credit Facility is unsecured and matures in February 2012, with proceeds expected to be used for working capital, capital expenditures and share repurchases. Borrowings will bear interest at either the bank's base rate or LIBOR plus an additional amount ranging from 0.35% to 0.90% per annum, adjusted quarterly based on our performance (0.50% at September 27, 2008). We are also required to pay a commitment fee ranging from 0.06% to 0.18% per annum for unused capacity (0.10% at September 27, 2008). The agreement requires quarterly compliance with respect to fixed charge coverage and leverage ratios.

**Note 8 Treasury Stock:**

We have a Board-approved share repurchase program which provides for repurchase of up to \$400 million of common stock, exclusive of any fees, commissions, or other expenses related to such repurchases, through December 2011. In August 2008, the board of directors authorized a \$200 million increase to the existing \$200 million share repurchase program and extended the program term from February 2010 to December 2011. 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 will be held in treasury. The program may be limited or terminated at any time without prior notice.

We repurchased 464,812 and 645,022 shares under the share repurchase program during the third quarter of 2008 and 2007, respectively. The total cost of the share repurchases was \$14.7 million and \$31.2 million during the third quarter of 2008 and 2007, respectively. We repurchased 1,280,205 and 1,864,614 shares under the share repurchase program during the first nine months of 2008 and 2007, respectively. The total cost of the share repurchases was \$42.5 million and \$94.9 million during the first nine months of 2008 and 2007, respectively. As of September 27, 2008, we had remaining authorization under the share repurchase program of \$207.6 million.

**Note 9 New Accounting Pronouncements:**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, Fair Value Measurements , ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 ( FSP 157-2 ), which amended SFAS 157 and delayed its effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP 157-2. We adopted the remaining provisions of SFAS 157 effective December 30, 2007 (fiscal 2008). The adoption of SFAS 157 did not impact our financial condition, results of operations, or cash flow. We are currently evaluating the impact that the adoption of FSP 157-2 will have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ). SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. We adopted SFAS 159 effective December 30, 2007 (fiscal 2008). The adoption of SFAS 159 did not impact our financial condition, results of operations, or cash flow.



**Table of Contents**

In April 2008, the FASB issued FASB Staff Position ( FSP ) No. FAS 142-3, Determination of the Useful Life of Intangible Assets , which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under SFAS 142,

Goodwill and Other Intangible Assets. The FSP requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141, Business Combinations. The FSP is effective for fiscal years beginning after December 15, 2008, and the guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. The FSP is not expected to have a significant impact on our financial condition, results of operations or cash flow.

In May 2008, the FASB issued SFAS No. 162 ( SFAS 162 ), The Hierarchy of Generally Accepted Accounting Principles. The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are prepared in conformance with generally accepted accounting principles. The statement is effective 60 days following the SEC's pending approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with GAAP, and is not expected to have any impact on the Company's financial condition, results of operations or cash flow.

**Note 10 Commitments and Contingencies:**

*Construction commitments*

We had commitments for new store construction projects and a distribution center expansion project totaling approximately \$5.3 million at September 27, 2008.

We had outstanding letters of credit of \$13.4 million at September 27, 2008.

*Litigation*

We are involved in various litigation matters arising in the ordinary course of business. Management expects these matters will be resolved without material adverse effect on our consolidated financial position or results of operations. Any estimated loss related to such matters has been adequately provided in accrued liabilities to the extent probable and reasonably estimable. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**General**

The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 29, 2007. The following discussion and analysis also contains certain historical and forward-looking information. The forward-looking statements included herein 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 estimated results of operations in future periods, future capital expenditures (including their amount and nature), business strategy, expansion and growth of our business operations and other such matters are forward-looking statements. These forward-looking statements may be affected by certain risks and uncertainties, any one, or a combination of which could materially affect the results of our operations. 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.

## **Table of Contents**

Our business is highly seasonal. Historically, our sales and profits have been the highest in the second and fourth fiscal quarters of each year due to the sale of seasonal products. Unseasonable weather, excessive precipitation, natural disasters, drought, and early or late frosts may also affect our sales. We believe, however, that the impact of severe weather conditions is somewhat mitigated by the geographic dispersion of our stores.

We experience our highest inventory and accounts payable balances during our first fiscal quarter each year for purchases of seasonal products in anticipation of the spring selling season and again during our third fiscal quarter in anticipation of the winter selling season.

As with any business, many aspects of our operations are subject to influences outside our control. These factors include the effect of the current economic cycle on consumer spending, weather factors, operating factors affecting customer satisfaction, consumer debt levels, inflation, pricing and other competitive factors, the ability to attract, train and retain qualified employees, the ability to manage and fund growth and identify suitable locations and negotiate favorable lease agreements on new and relocated stores, the impact of new stores on our business, the timing and acceptance of new products in the stores, the mix of goods sold, the continued availability of favorable credit sources, capital market conditions in general, the ability to increase sales at existing stores, the ability to retain vendors, the risk of product liability and other claims, reliance on foreign suppliers, the ability to maintain and improve our management information systems and internal controls over financial reporting, potential legal proceedings, tax rate changes, and the seasonality of our business. We discuss in greater detail risk factors relating to our business in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 29, 2007. Forward-looking statements are based on our knowledge of our business and the environment in which we operate, but because of the factors listed above or other factors, actual results could differ materially from those reflected by any forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business and operations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. 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.

## **Results of Operations**

### **Fiscal Three Months (Third Quarter) and Nine Months Ended September 27, 2008 and September 29, 2007**

Net sales increased 16.6% to \$733.9 million for the third quarter of 2008 from \$629.2 million for the third quarter of 2007. Net sales increased 11.5% to \$2.21 billion for the first nine months of fiscal 2008 from \$1.98 billion for the first nine months of fiscal 2007. The net sales increase for the third quarter resulted primarily from the addition of new stores and a same-store sales improvement of 6.2%. The net sales increase for the first nine months of fiscal 2008 was primarily the result of new store openings and a 1.5% increase in same-store sales. Our third quarter same-store sales improvements were driven by our core consumable categories (including animal and pet-related products) as well as seasonal heating-related products and emergency-response merchandise related to hurricane activity.

We opened 20 new stores during the third quarter of 2008 compared to 21 new store openings and four store relocations during the prior year's third quarter. During the first nine months of 2008, we opened 70 new stores, compared to 63 new store openings, 11 relocations and the sale of one store during the first nine months of 2007. We operated 834 stores at September 27, 2008, compared to 738 stores at September 29, 2007.

**Table of Contents**

The following chart indicates the average percentage of sales represented by each of our major product categories during the third quarter and first nine months of fiscal 2008 and 2007:

| <b>Product Category:</b>  | <b>Three months ended</b>         |                                   | <b>Nine months ended</b>          |                                   |
|---------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                           | <b>September<br/>27,<br/>2008</b> | <b>September<br/>29,<br/>2007</b> | <b>September<br/>27,<br/>2008</b> | <b>September<br/>29,<br/>2007</b> |
| Livestock and Pet         | 37%                               | 36%                               | 37%                               | 34%                               |
| Seasonal Products         | 23                                | 24                                | 25                                | 26                                |
| Hardware and Tools        | 16                                | 15                                | 14                                | 15                                |
| Clothing and Footwear     | 7                                 | 7                                 | 7                                 | 7                                 |
| Truck, Trailer and Towing | 9                                 | 10                                | 9                                 | 10                                |
| Agricultural              | 8                                 | 8                                 | 8                                 | 8                                 |
| <b>Total</b>              | <b>100%</b>                       | <b>100%</b>                       | <b>100%</b>                       | <b>100%</b>                       |

Gross margin for the third quarter and the first nine months of fiscal 2008 was \$218.2 million and \$667.2 million, respectively. This represents an increase of 9.8% and 8.1%, respectively, over the comparable periods of the prior year. Gross margin, as a percent of sales, was 29.7% for the third quarter of fiscal 2008 compared to 31.6% for the comparable period in fiscal 2007. The decline in gross margin rate for the quarter resulted from an increased LIFO provision, higher transportation costs and clearance markdowns. The LIFO provision increased approximately 110 basis points for the third fiscal quarter of 2008 from the prior year third fiscal quarter due to significant inflation (increases in costs for certain commodities, petroleum-based products and steel), a shift in the product mix towards higher inflationary items and clearance activity. The clearance markdowns relate to our continued inventory reduction initiative through aggressive efforts to clear seasonal product and certain merchandise that will not be carried into future periods. The increased transportation costs resulted from increased fuel costs and the mix of goods. For the first nine months of fiscal 2008, the gross margin rate was 30.2% compared to 31.2% for the first nine months of 2007, largely due to the same factors as described for the quarter. The LIFO provision increased approximately 90 basis points for the nine months ended September 27, 2008 from the prior year nine-month period due to the same factors as described for the quarter.

Selling, general and administrative ( SG&A ) expenses decreased 70 basis points to 24.1% of sales in the third quarter of fiscal 2008 from 24.8% of sales in the third quarter of fiscal 2007. This third quarter improvement was primarily attributable to increased sales leverage, improved management of store payroll and a focus on cost control and overall expense management. These improvements were offset in part by higher occupancy costs due to our store expansion program. SG&A expenses for the first nine months of fiscal 2008 increased 20 basis points to 23.9% of sales from 23.7% in the first nine months of fiscal 2007, primarily due to less sales leverage in the first quarter of fiscal 2008.

Depreciation and amortization expense was consistent at 2.1% of sales in the third quarter of fiscal 2008 and 2007. As a percent of sales, depreciation and amortization expense increased 10 basis points to 2.0% in the first nine months of fiscal 2008 from 1.9% in the first nine months of fiscal 2007. The increases were related directly to new store growth and capital costs for infrastructure and technology.

Interest expense decreased 20 basis points to 0.0% of sales in the third quarter of 2008 from 0.2% in the third quarter of fiscal 2007. For the first nine months of fiscal 2008, interest expense decreased to \$1.7 million compared to \$3.0 million for the comparable period in fiscal 2007. The quarter and year-to-date improvements are primarily due to a lower average outstanding balance on our credit facility, and a lower weighted-average interest rate. Reported expense also included a \$0.3 million reduction due to favorable resolution of a sales tax audit.

Our effective income tax rate increased to 39.3% in the third quarter of fiscal 2008 compared with 37.9% for the third quarter of fiscal 2007 largely due to recent increases in certain state tax rates and the impact of stock compensation expense.





**Table of Contents**

As a result of the foregoing factors, net income for the third quarter of fiscal 2008 decreased 9.1% to \$15.9 million compared to \$17.5 million in the third quarter of fiscal 2007. Net income for the first nine months of fiscal 2008 decreased 13.6% to \$57.2 million from \$66.2 million in the first nine months of the prior year. Net income, as a percent of sales, decreased 60 basis points to 2.2% for the third quarter of fiscal 2008 compared to 2.8% in the third quarter of fiscal 2007. For the first nine months of fiscal 2008, net income as a percent of sales decreased 70 basis points to 2.6%, compared to 3.3% for the first nine months of fiscal 2007. Net income per diluted share for the third quarter of fiscal 2008 decreased to \$0.43 from \$0.44 and, for the first nine months of fiscal 2008, decreased to \$1.52 from \$1.63. Outstanding shares were reduced as a result of repurchases under our share repurchase program.

**Liquidity and Capital Resources**

In addition to normal operating expenses, our primary ongoing cash requirements are for store expansion and remodeling programs, including inventory purchases and capital expenditures. Our primary ongoing sources of liquidity are funds provided from operations, commitments available under our Senior Credit Facility and normal trade credit.

At September 27, 2008, we had working capital of \$287.5 million, a \$24.6 million decrease from December 29, 2007. This decrease was primarily attributable to changes in the following components of current assets and current liabilities (in millions):

|  | September<br>27,<br>2008 | December<br>29,<br>2007 | Variance  | September<br>29,<br>2007 | Variance  |
|--|--------------------------|-------------------------|-----------|--------------------------|-----------|
| Current assets:                                |                          |                         |           |                          |           |
| Cash and cash equivalents                      | \$ 16.6                  | \$ 13.7                 | \$ 2.9    | \$ 14.7                  | \$ 1.9    |
| Inventories                                    | 703.1                    | 636.0                   | 67.1      | 699.3                    | 3.8       |
| Prepaid expenses and other<br>current assets   | 40.5                     | 41.9                    | (1.4)     | 43.9                     | (3.4)     |
| Deferred income taxes                          | 2.9                      | 0.3                     | 2.6       | 1.1                      | 1.8       |
|  | 763.1                    | 691.9                   | 71.2      | 759.0                    | 4.1       |
| Current liabilities:                           |                          |                         |           |                          |           |
| Accounts payable                               | 366.1                    | 258.3                   | 107.8     | 281.2                    | 84.9      |
| Other accrued expenses                         | 108.0                    | 115.6                   | (7.6)     | 111.5                    | (3.5)     |
| Current portion of capital lease<br>obligation | 0.5                      | 0.8                     | (0.3)     | 0.8                      | (0.3)     |
| Income tax currently payable                   | 1.0                      | 5.1                     | (4.1)     |                          | 1.0       |
| Deferred tax liabilities                       |                          |                         |           |                          |           |
|  | 475.6                    | 379.8                   | 95.8      | 393.5                    | 82.1      |
| Working capital                                | \$ 287.5                 | \$ 312.1                | \$ (24.6) | \$ 365.5                 | \$ (78.0) |

The increase in inventories since year-end resulted primarily from normal seasonal purchases as well as the purchase of additional inventory for new stores. These increases were offset by a decrease in average inventory per store due to planned initiatives to reduce inventory levels coupled with more aggressive clearance efforts. The increase in accounts payable resulted from the increase in inventories as well as improved vendor financing. Trade credit arises from our vendors granting extended payment terms for inventory purchases. Payment terms generally vary from 30 days to 180 days depending on the inventory product. Income taxes payable declined from year-end due to the timing of estimated payments.

The increase in inventory from the prior year quarter is due to the purchase of additional inventory for new stores. The increase in accounts payable is due primarily to the purchase of inventory for new stores as well as improved vendor dating.

**Table of Contents**

Operations provided net cash of \$143.6 million and \$55.7 million in the first nine months of fiscal 2008 and fiscal 2007, respectively. The \$87.9 million increase in net cash provided in 2008 over 2007 is primarily due to changes in the following operating activities (in millions):

|   | <b>September<br/>27,<br/>2008</b> | <b>Nine months ended<br/>September<br/>29,<br/>2007</b> | <b>Variance</b> |
|---|-----------------------------------|---|-----------------|
| Net income                                | \$ 57.2                           | \$ 66.2   | \$ (9.0)        |
| Depreciation and amortization             | 44.7                              | 37.3  | 7.4             |
| Inventories and accounts payable          | 40.7                              | (52.4)  | 93.1            |
| Stock compensation expense                | 9.2                               | 8.7   | 0.5             |
| Prepaid expenses and other current assets | 1.4                               | (6.5)   | 7.9             |
| Other accrued expenses                    | (7.6)                             | 0.2   | (7.8)           |
| Income taxes currently payable            | (4.1)                             | (11.6)  | 7.5             |
| Other, net                                | 2.1                               | 13.8  | (11.7)          |
| Net cash provided by operations           | \$ 143.6                          | \$ 55.7   | \$ 87.9         |

The improvement in net cash provided by operations in the first nine months of fiscal 2008 compared with the first nine months of fiscal 2007 was primarily due to reductions in average inventory levels and improved vendor financing. The change in cash used for income taxes relates to the timing of payments.

Investing activities used \$68.6 million and \$67.4 million in the first nine months of fiscal 2008 and fiscal 2007, respectively. The majority of this cash requirement relates to our capital expenditures.

Capital expenditures for the first nine months of fiscal 2008 and fiscal 2007 were as follows (in millions):

|  | <b>September<br/>27,<br/>2008</b> | <b>Nine months ended<br/>September 29,<br/>2007</b> |
|--|-----------------------------------|---|
| New/relocated stores and stores not yet opened | \$ 30.3                           | \$ 32.4   |
| Distribution center capacity and improvements  | 12.4                              | 2.0   |
| Existing store properties acquired from lessor | 8.5                               | 6.8   |
| Information technology                         | 9.9                               | 13.1  |
| Existing stores                                | 7.6                               | 14.0  |
| Other  | 0.1                               | 0.1   |
|  | \$ 68.8                           | \$ 68.4   |

The above table reflects 70 new stores in the first nine months of fiscal 2008, compared to 74 new/relocated stores during the first nine months of fiscal 2007.

Financing activities used \$72.1 million and provided no significant cash in the first nine months of fiscal 2008 and fiscal 2007, respectively. This increase in net cash used is largely due to more repayments than borrowings under the Senior Credit Facility and, to a lesser extent, less repurchases of common stock under our share repurchase program.

## **Table of Contents**

We are party to a Senior Credit Facility with Bank of America, N.A., as agent for a lender group, which provides for borrowings up to \$350 million (with sublimits of \$75 million and \$20 million for letters of credit and swingline loans, respectively). In February 2008, we exercised the Increase Option on this facility, increasing the overall capacity from \$250 million to \$350 million. Each of the nine lenders within our credit facility bank group participated in the increase. Simultaneously, the Senior Credit Facility was modified to: (1) add an additional Increase Option for \$150 million (subject to additional lender group commitments); (2) modify the definition of swingline committed amount from \$10 million to \$20 million; and (3) revise the definition of the fixed charge coverage ratio covenant to remove certain defined charges. All pricing terms and the term of the facility remained the same.

The Senior Credit Facility is unsecured and matures in February 2012, with proceeds expected to be used for working capital, capital expenditures and share repurchases. Borrowings will bear interest at either the bank's base rate or LIBOR plus an additional amount ranging from 0.35% to 0.90% per annum, adjusted quarterly based on our performance (0.50% at September 27, 2008). We are also required to pay a commitment fee ranging from 0.06% to 0.18% per annum for unused capacity (0.10% at September 27, 2008). The agreement requires quarterly compliance with respect to fixed charge coverage and leverage ratios. We were in compliance with all financial covenants at September 27, 2008.

We believe that our cash flow from operations, borrowings available under our Senior Credit Facility, and normal trade credit will be sufficient to fund our operations and capital expenditure needs, including store openings and renovations, over the next several years.

### **Share Repurchase Program**

We have a Board-approved share repurchase program which provides for repurchase of up to \$400 million of common stock, exclusive of any fees, commissions, or other expenses related to such repurchases, through December 2011. In August 2008, the board of directors authorized a \$200 million increase to the existing \$200 million share repurchase program and extended the program term from February 2010 to December 2011. 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 will be held in treasury. The program may be limited or terminated at any time without prior notice.

We repurchased 464,812 and 645,022 shares under the share repurchase program during the third quarter of 2008 and 2007, respectively. The total cost of the share repurchases was \$14.7 million and \$31.2 million during the third quarter of 2008 and 2007, respectively. We repurchased 1,280,205 and 1,864,614 shares under the share repurchase program during the first nine months of 2008 and 2007, respectively. The total cost of the share repurchases was \$42.5 million and \$94.9 million during the first nine months of 2008 and 2007, respectively. As of September 27, 2008, we had remaining authorization under the share repurchase program of \$207.6 million.

### **Off-Balance Sheet Arrangements**

Our off-balance sheet arrangements are limited to operating leases and outstanding letters of credit. Leasing buildings and equipment for retail stores and offices rather than acquiring these significant assets allows us to utilize financial capital to operate the business rather than maintain assets. Letters of credit allow us to purchase inventory in a timely manner.

### **Significant Contractual Obligations and Commercial Commitments**

In addition to commitments related to construction for new stores of \$4.1 million, we have a remaining contractual commitment of \$1.2 million for the expansion of our Waco, TX distribution center. There has been no other material change in our contractual obligations and commercial commitments other than in the ordinary course of business since the end of fiscal 2007.

We had outstanding letters of credit of \$13.4 million at September 27, 2008.

**Table of Contents**

**Significant Accounting Policies and Estimates**

Our 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 accounting principles generally accepted in the United States. The preparation of these financial statements requires us 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. Significant accounting policies, including areas of critical management judgments and estimates, have primary impact on the following financial statement areas:

Revenue recognition and sales returns

Inventory valuation

Stock-based compensation

Self-insurance reserves

Sales tax audit reserve

Tax contingencies

Goodwill

Long-lived assets

See the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 29, 2007 for a discussion of our critical accounting policies. 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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We have no separate investments subject to market risk; however, we remain exposed to changes in interest rates primarily from our Senior Credit Facility (the Credit Agreement). The Credit Agreement bears interest at either the bank's base rate (5.00% and 7.75% at September 27, 2008 and September 29, 2007, respectively) or LIBOR (3.43% and 5.13% at September 27, 2008 and September 29, 2007, respectively) plus an additional amount ranging from 0.35% to 0.90% per annum, adjusted quarterly, based on our performance (0.50% at September 27, 2008 and September 29, 2007). We are also required to pay, quarterly in arrears, a commitment fee ranging from 0.06% to 0.18% based on the daily average unused portion of the Credit Agreement (0.10% at September 27, 2008 and September 29, 2007). See Note 7 of the Notes to the Consolidated Financial Statements included herein for further discussion regarding the Credit Agreement.

Although we cannot determine the full effect of inflation on our operations, we believe our sales and results of operations are affected by inflation. We are subject to market risk with respect to the pricing of certain products and services, which include, among other items, steel, grain, petroleum, corn, soybean and other commodities as well as diesel fuel and transportation services and utility costs. If the cost of these products and services continues to increase, consumer demand may fall and/or we may not be able to pass all such increases on to our customers and, as a result, sales and/or gross margins could decline. Our strategy is to reduce or mitigate the effects of inflation principally by taking advantage of vendor incentive programs, economies of scale from increased volume of purchases, increasing retail prices and selectively buying from the most competitive vendors without sacrificing quality. Due to the competitive environment, such conditions have and may continue to adversely impact our gross margin.



**Table of Contents**

**Item 4. 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 September 27, 2008. Based on this evaluation, our principal executive officer and principal financial officer initially concluded that, as of September 27, 2008, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

In connection with the amendment to our financial statements as described in the introductory Explanatory Note, we re-evaluated the effectiveness of the design and operation of the disclosure controls and procedures as of September 27, 2008. In connection therewith, we identified a material weakness in internal control over financial reporting related to LIFO inventory valuation. The actual LIFO valuation is dependent upon end-of-year inventories, specifically the quantity and mix of product and the inflation rate for the various categories of products. Since the actual valuation can only be calculated at year-end, we record an estimated LIFO provision at the end of each interim quarter. At year-end, when the key variables are known, the LIFO provision is adjusted to the actual year-end calculation.

We developed a new interim LIFO projection model at the beginning of fiscal 2008 in an effort to facilitate improved forecasting of both inventory mix and price inflation. At the end of fiscal 2008, an error was discovered in the LIFO projection model which resulted in an understatement of the inflation indices. As a result, the quarterly LIFO provision to cost of merchandise sold for the three-month and nine-month periods ended September 27, 2008 was understated.

We did not have a sufficient review process for the new model used to forecast expected inflation/deflation among the product categories, which led to a material misstatement of our interim financial statements for the period presented in this Form 10-Q/A. We have determined that this is a material weakness in internal control over financial reporting. Solely as a result of this material weakness, we concluded that our disclosure controls were not effective as of September 27, 2008. In order to remediate this material weakness, we have taken the following steps:

- (1) Corrected the LIFO projection model to properly calculate estimated annual inflation rates and the projected end-of-year indices,
- (2) Performed additional analyses on the derivation of projected indices in each interim LIFO calculation,
- (3) Expanded the review process for all input assumptions used in each interim LIFO calculation, and
- (4) Further documented the procedures to review, approve and manage changes in the process of estimating LIFO cost for interim periods.

**Changes in Internal Control over Financial Reporting**

Other than as set forth in this Amendment No. 1 to Form 10-Q, there have been no changes in our internal control over financial reporting during the third fiscal quarter of 2008 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.



**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We are involved in various litigation matters arising in the ordinary course of business. Management expects these matters will be resolved without material adverse effect on our consolidated financial position or results of operations. Any estimated loss related to such matters has been adequately provided in accrued liabilities to the extent probable and reasonably estimable. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in circumstances relating to these proceedings.

**Item 1A. Risk Factors**

There have been no material changes to our risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 29, 2007.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

We have a share repurchase program which provides for repurchase of up to \$400 million of our outstanding common stock through December 2011. In August 2008, the board of directors authorized a \$200 million increase to the existing \$200 million share repurchase program and extended the program term from February 2010 to December 2011. Stock repurchase activity during the third quarter of fiscal 2008 was as follows:

| <b>Period</b>                        | <b>Total<br/>Number<br/>of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>Per Share</b> | <b>Total Number<br/>of<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans<br/>or Programs</b> | <b>Maximum<br/>Dollar<br/>Value of Shares<br/>That May Yet<br/>Be<br/>Purchased<br/>Under<br/>the Plans or<br/>Programs</b> |
|--------------------------------------|---|---|---|---|
| June 29, 2008 - July 26, 2008        | 375,625   | \$ 29.53  | 375,625   | \$ 11,180,983   |
| July 27, 2008 - August 23, 2008      | 77,505  | \$ 40.16  | 77,505  | \$ 208,070,482 <sup>(a)</sup>   |
| August 24, 2008 - September 27, 2008 | 11,682  | \$ 41.48  | 11,682  | \$ 207,586,268  |
| As of September 27, 2008             | 464,812   |   | 464,812   | \$ 207,586,268  |

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 Securities and Exchange Commission.

(a) Reflects Board approval in August 2008 to increase program by \$200 million.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Table of Contents**

**Item 6. Exhibits**

Exhibits

- 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.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURE**

Pursuant to the requirements 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 18, 2009

By: /s/ Anthony F. Crudele  
Anthony F. Crudele  
Executive Vice President - Chief Financial Officer  
and Treasurer  
(Duly Authorized Officer and Principal Financial  
Officer)