TRACTOR SUPPLY CO /DE/
Form 10-Q
August 09, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2018
or

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

For the transition period from to

Commission file number 000-23314
TRACTOR SUPPLY COMPANY
(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| Delaware | 13-3139732 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| | |
| 5401 Virginia Way, Brentwood, Tennessee | 37027 |
| (Address of Principal Executive Offices) | (Zip Code) |
| | |
| Not Applicable | (615) 440-4000 |
| (Former name, former address and former fiscal year, if changed since last report) | (Registrant's Telephone Number, Including Area Code) |

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

Indicate by check mark whether the registrant has submitted electronically 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 þ NO o

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

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. o

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

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 July 28, 2018 |
| --- | --- |
| Common Stock, $.008 par value | 121,804,677 |

TRACTOR SUPPLY COMPANY

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
TRACTOR SUPPLY COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(Unaudited)

| | June 30, 2018 | December 30, 2017 | July 1, 2017 |
|---|---|---|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | $69,954 | $109,148 | $67,793 |
| Inventories | 1,632,280 | 1,453,208 | 1,468,254 |
| Prepaid expenses and other current assets | 103,379 | 88,252 | 90,409 |
| Income taxes receivable | 5,115 | 4,760 | 4,066 |
| Total current assets | 1,810,728 | 1,655,368 | 1,630,522 |
| Property and equipment: | | | |
| Land | 100,564 | 99,336 | 99,267 |
| Buildings and improvements | 1,072,866 | 1,037,730 | 995,716 |
| Furniture, fixtures and equipment | 619,284 | 605,957 | 584,275 |
| Computer software and hardware | 290,599 | 266,898 | 243,577 |
| Construction in progress | 125,945 | 83,816 | 48,521 |
| Property and equipment, gross | 2,209,258 | 2,093,737 | 1,971,356 |
| Accumulated depreciation and amortization | (1,127,715 ) | (1,049,234 ) | (988,998 ) |
| Property and equipment, net | 1,081,543 | 1,044,503 | 982,358 |
| Goodwill and other intangible assets | 124,492 | 124,492 | 125,717 |
| Deferred income taxes | 20,741 | 18,494 | 52,960 |
| Other assets | 29,902 | 25,912 | 24,015 |
| Total assets | $3,067,406 | $2,868,769 | $2,815,572 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | $649,665 | $576,568 | $510,820 |
| Accrued employee compensation | 22,758 | 31,673 | 14,264 |
| Other accrued expenses | 205,352 | 201,656 | 184,829 |
| Current portion of long-term debt | 25,000 | 25,000 | 20,000 |
| Current portion of capital lease obligations | 3,714 | 3,545 | 3,418 |
| Income taxes payable | 34,997 | 10,772 | 73,157 |
| Total current liabilities | 941,486 | 849,214 | 806,488 |
| Long-term debt | 516,410 | 401,069 | 433,676 |
| Capital lease obligations, less current maturities | 30,639 | 32,617 | 33,860 |
| Deferred rent | 107,827 | 105,906 | 102,525 |
| Other long-term liabilities | 65,002 | 61,290 | 56,457 |
| Total liabilities | 1,661,364 | 1,450,096 | 1,433,006 |
| Stockholders' equity: | | | |
| Preferred stock, $1.00 par value; 40 shares authorized; no shares issued | — | — | — |
| Common stock, $0.008 par value; 400,000 shares authorized at June 30, 2018, December 30, 2017 and July 1, 2017; 170,728, 170,375 and 170,184 shares issued; 121,811, 125,303 and 127,231 shares outstanding at June 30, 2018, December 30, 2017 and July 1, 2017, respectively | 1,366 | 1,363 | 1,361 |
| Additional paid-in capital | 746,410 | 716,228 | 693,775 |

| | | | |
|---|---|---|---|
| Treasury stock – at cost, 48,917, 45,072 and 42,953 shares at June 30, 2018, December 30, 2017 and July 1, 2017, respectively | (2,383,446 ) | (2,130,901 ) | (2,009,645 ) |
| Accumulated other comprehensive income | 5,742 | 3,358 | 1,521 |
| Retained earnings | 3,035,970 | 2,828,625 | 2,695,554 |
| Total stockholders’ equity | 1,406,042 | 1,418,673 | 1,382,566 |
| Total liabilities and stockholders’ equity | $3,067,406 | $2,868,769 | $2,815,572 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

| | For the Fiscal Three Months Ended | | For the Fiscal Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2018 | July 1, 2017 | June 30, 2018 | July 1, 2017 |
| Net sales | $2,213,249 | $2,017,762 | $3,896,150 | $3,581,840 |
| Cost of merchandise sold | 1,443,835 | 1,313,054 | 2,563,087 | 2,358,929 |
| Gross profit | 769,414 | 704,708 | 1,333,063 | 1,222,911 |
| Selling, general and administrative expenses | 452,346 | 405,736 | 878,459 | 787,850 |
| Depreciation and amortization | 43,610 | 41,047 | 86,397 | 80,774 |
| Operating income | 273,458 | 257,925 | 368,207 | 354,287 |
| Interest expense, net | 4,978 | 3,092 | 9,446 | 5,869 |
| Income before income taxes | 268,480 | 254,833 | 358,761 | 348,418 |
| Income tax expense | 61,191 | 94,184 | 80,039 | 127,458 |
| Net income | $207,289 | $160,649 | $278,722 | $220,960 |
| | | | | |
| Net income per share – basic | $1.70 | $1.25 | $2.26 | $1.71 |
| Net income per share – diluted | $1.69 | $1.25 | $2.25 | $1.70 |
| | | | | |
| Weighted average shares outstanding: | | | | |
| Basic | 122,100 | 128,186 | 123,288 | 129,231 |
| Diluted | 122,775 | 128,722 | 123,975 | 129,906 |
| | | | | |
| Dividends declared per common share outstanding | $0.31 | $0.27 | $0.58 | $0.51 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

| | For the Fiscal Three Months Ended | | For the Fiscal Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2018 | July 1, 2017 | June 30, 2018 | July 1, 2017 |
| Net income | $207,289 | $160,649 | $278,722 | $220,960 |
| Other comprehensive income (loss): | | | | |
| Change in fair value of interest rate swaps, net of taxes | 552 | (152) | 2,384 | 129 |
| Total other comprehensive income (loss) | 552 | (152) | 2,384 | 129 |
| Total comprehensive income | $207,841 | $160,497 | $281,106 | $221,089 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

| | For the Fiscal Six Months Ended | |
|---|---|---|
| | June 30, 2018 | July 1, 2017 |
| Cash flows from operating activities: | | |
| Net income | $278,722 | $220,960 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 86,397 | 80,774 |
| Loss on disposition of property and equipment | 623 | 198 |
| Share-based compensation expense | 16,409 | 15,079 |
| Deferred income taxes | (2,247) | (7,742) |
| Change in assets and liabilities: | | |
| Inventories | (179,072) | (98,598) |
| Prepaid expenses and other current assets | (15,127) | 148 |
| Accounts payable | 73,097 | (8,702) |
| Accrued employee compensation | (8,915) | (10,982) |
| Other accrued expenses | (3,884) | (33,895) |
| Income taxes | 23,870 | 67,289 |
| Other | 4,141 | 2,979 |
| Net cash provided by operating activities | 274,014 | 227,508 |
| Cash flows from investing activities: | | |
| Capital expenditures | (116,695) | (96,610) |
| Proceeds from sale of property and equipment | 288 | 10,781 |
| Net cash used in investing activities | (116,407) | (85,829) |
| Cash flows from financing activities: | | |
| Borrowings under debt facilities | 673,000 | 578,000 |
| Repayments under debt facilities | (557,500) | (398,000) |
| Debt issuance costs | (346) | (313) |
| Principal payments under capital lease obligations | (1,809) | (669) |
| Repurchase of shares to satisfy tax obligations | (569) | (653) |
| Repurchase of common stock | (252,545) | (248,147) |
| Net proceeds from issuance of common stock | 14,345 | 7,835 |
| Cash dividends paid to stockholders | (71,377) | (65,855) |
| Net cash used in financing activities | (196,801) | (127,802) |
| Net change in cash and cash equivalents | (39,194) | 13,877 |
| Cash and cash equivalents at beginning of period | 109,148 | 53,916 |
| Cash and cash equivalents at end of period | $69,954 | $67,793 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $6,337 | $5,218 |
| Income taxes | 58,949 | 67,752 |
| | | |
| Supplemental disclosures of non-cash activities: | | |
| Property and equipment acquired through capital lease | $— | $10,734 |

| | | |
|---|---|---|
| Non-cash accruals for construction in progress | 16,227 | 15,377 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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TRACTOR SUPPLY COMPANY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – General:

Nature of Business

Founded in 1938, Tractor Supply Company (the “Company” or “we” or “our”) is the largest operator of rural lifestyle retail stores in the United States (“U.S.”). The Company is focused on supplying the needs of recreational farmers and ranchers and those who enjoy the rural lifestyle (which we refer to as the “Out Here” lifestyle), as well as tradesmen and small businesses. Stores are located 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 June 30, 2018, the Company operated a total of 1,899 retail stores in 49 states (1,725 Tractor Supply and Del’s retail stores and 174 Petsense retail stores) and also offered an expanded assortment of products online at TractorSupply.com and Petsense.com.

Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and notes required by U.S. GAAP 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 30, 2017. The results of operations for our interim periods are not necessarily indicative of results for the full fiscal year.

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”) as discussed in Note 12. This guidance was applied retrospectively, which resulted in the reclassification of $0.6 million from accumulated other comprehensive income to retained earnings in the Condensed Consolidated Balance Sheet as of December 30, 2017. No other periods presented were affected by the adoption of this accounting guidance.

Note 2 – 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 $543.0 million in borrowings under its debt facilities (as discussed in Note 5) at June 30, 2018, $427.5 million in

borrowings at December 30, 2017, and $455.0 million in borrowings at July 1, 2017. Based on market interest rates (Level 2 inputs), the carrying value of borrowings in 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 6, the fair value of the interest rate swaps, excluding accrued interest, was an $8.4 million asset at June 30, 2018, a $5.2 million asset at December 30, 2017 and a $3.0 million asset at July 1, 2017.

Note 3 – Share-Based Compensation:

Share-based compensation includes stock options, restricted stock units, performance-based restricted share unit awards and certain transactions under our Employee Stock Purchase Plan (the "ESPP"). Share-based compensation expense is recognized based on grant date fair value of all stock options, restricted stock units and performance-based restricted share unit awards plus a discount on shares purchased by employees as a part of the ESPP.

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In fiscal 2018 and 2017, there were no significant modifications to the Company's share-based compensation plans prior to May 10, 2018, when the Company's shareholders approved the 2018 Omnibus Incentive Plan (the "2018 Plan") replacing the 2009 Stock Incentive Plan. Following the adoption of the 2018 Plan, no further grants may be made under the 2009 Stock Incentive Plan. The maximum number of shares of common stock with respect to which awards may be granted under the 2018 Plan is 12,562,318. Under our 2018 Plan, 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 grant and certain awards will vest only upon established performance conditions being met.

For the second quarters of fiscal 2018 and 2017, share-based compensation expense was $7.8 million and $7.5 million, respectively, and $16.4 million and $15.1 million for the first six months of fiscal 2018 and 2017, respectively.

Stock Options

The following table summarizes information concerning stock option grants during the first six months of fiscal 2018 and 2017:

| | Fiscal six months ended | |
|---|---|---|
| | June 30, 2018 | July 1, 2017 |
| Stock options granted | 664,686 | 1,557,681 |
| Weighted average exercise price | $ 67.27 | $ 72.76 |
| Weighted average grant date fair value per option | $ 14.86 | $ 14.68 |

As of June 30, 2018, total unrecognized compensation expense related to non-vested stock options was approximately $18.8 million with a remaining weighted average expense recognition period of 1.9 years.

Restricted Stock Units and Performance-Based Restricted Share Units

The following table summarizes information concerning restricted stock unit and performance-based restricted share unit grants during the first six months of fiscal 2018 and 2017:

| | Fiscal six months ended | |
|---|---|---|
| | June 30, 2018 | July 1, 2017 |
| Restricted stock units granted | 298,249 | 82,835 |
| Performance-based restricted share units granted | 39,330 | — |
| Weighted average grant date fair value per share | $ 63.37 | $ 66.70 |

During the first quarter of fiscal 2018, the Company granted awards that are 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. The number of performance-based restricted share units presented in the foregoing table represent the shares that can be achieved at the performance metric target value. The actual number of shares that will be issued under the performance share awards, which may be higher or lower than the target, will be determined by the level of achievement of the performance goals. If the performance targets are achieved, the units will be issued based on the achievement level and the grant date fair value and vest on a pro rata basis over a three-year period.

As of June 30, 2018, total unrecognized compensation expense related to non-vested restricted stock units and non-vested performance-based restricted share units was approximately $18.5 million with a remaining weighted average expense recognition period of 2.4 years.

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Note 4 – Net Income Per Share:

The Company presents both basic and diluted net income per share on the face of the unaudited condensed 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. 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 are considered satisfied as of the end of the reporting period. Net income per share is calculated as follows (in thousands, except per share amounts):

| | Fiscal three months ended June 30, 2018 | | | Fiscal three months ended July 1, 2017 | | |
|---|---|---|---|---|---|---|
| | Income | Shares | Per Share Amount | Income | Shares | Per Share Amount |
| Basic net income per share: | $207,289 | 122,100 | $ 1.70 | $160,649 | 128,186 | $ 1.25 |
| Dilutive effect of share-based awards | — | 675 | (0.01 ) | — | 536 | — |
| Diluted net income per share: | $207,289 | 122,775 | $ 1.69 | $160,649 | 128,722 | $ 1.25 |

| | Fiscal six months ended June 30, 2018 | | | Fiscal six months ended July 1, 2017 | | |
|---|---|---|---|---|---|---|
| | Income | Shares | Per Share Amount | Income | Shares | Per Share Amount |
| Basic net income per share: | $278,722 | 123,288 | $ 2.26 | $220,960 | 129,231 | $ 1.71 |
| Dilutive effect of share-based awards | — | 687 | (0.01 ) | — | 675 | (0.01 ) |
| Diluted net income per share: | $278,722 | 123,975 | $ 2.25 | $220,960 | 129,906 | $ 1.70 |

Anti-dilutive stock options excluded from the above calculations totaled approximately 3.8 million and 4.1 million shares for the three months ended June 30, 2018 and July 1, 2017, respectively, and 3.7 million and 3.2 million shares for the fiscal six months ended June 30, 2018 and July 1, 2017, respectively.

Note 5 – Debt:

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

| | June 30, 2018 | December 30, 2017 | July 1, 2017 |
|---|---|---|---|
| Senior Notes | $150.0 | $ 150.0 | $— |
| Senior Credit Facility: | | | |
| February 2016 Term Loan | 170.0 | 180.0 | 185.0 |
| June 2017 Term Loan | 95.0 | 97.5 | 100.0 |
| Revolving credit loans | 128.0 | — | 170.0 |
| Total outstanding borrowings | 543.0 | 427.5 | 455.0 |
| Less: unamortized debt issuance costs | (1.6 ) | (1.4 ) | (1.3 ) |
| Total debt | 541.4 | 426.1 | 453.7 |
| Less: current portion of long-term debt | (25.0 ) | (25.0 ) | (20.0 ) |
| Long-term debt | $516.4 | $ 401.1 | $433.7 |
| | | | |
| Outstanding letters of credit | $39.9 | $ 39.6 | $44.3 |

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-



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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. On February 16, 2018, the maturity date was extended from February 19, 2021 to 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 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 (5.000% at June 30, 2018) or the London Inter-Bank Offer Rate ("LIBOR") (2.090% at June 30, 2018) plus an additional amount ranging from 0.500% to 1.125% per annum (0.750% at June 30, 2018), 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 June 30, 2018), 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 (5.000% at June 30, 2018) or LIBOR (2.090% at June 30, 2018) plus an additional 1.000% per annum. As further described in Note 6, 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, prepayment of debts, transactions with subsidiaries or affiliates, and liens. As of June 30, 2018, 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,

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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 6 – 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 5, up to the maturity date of the interest rate swap agreement on February 19, 2021. As of June 30, 2018, the notional amount of the interest rate swap was $170.0 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 5. As of June 30, 2018, the notional amount of the interest rate swap was $95.0 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 effective portion of 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") and reclassified into earnings in the period during which the hedged transactions affect earnings. The ineffective portion of gains and losses on interest rate swaps, if any, are recognized in current earnings.

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

| | Balance Sheet Location | June 30, 2018 | December 30, 2017 | July 1, 2017 |
|---|---|---|---|---|
| Interest rate swaps (short-term portion) | Other current assets / (Other accrued expenses) | $ 2,533 | $ 900 | $ (56 ) |
| Interest rate swaps (long-term portion) | Other assets | 5,871 | 4,252 | 3,105 |
| Total net assets | | $ 8,404 | $ 5,152 | $ 3,049 |

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

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

| | June 30, 2018 | December 30, 2017 | July 1, 2017 |
|---|---|---|---|
| Beginning fiscal year AOCI balance | $ 3,358 | $ 1,392 | $ 1,392 |
| Current fiscal period gain recognized in OCI | 2,384 | 1,371 | 129 |
| Reclassification of stranded tax effects to retained earnings [(a)] | — | 595 | — |
| Other comprehensive gain, net of tax | 2,384 | 1,966 | 129 |
| Ending fiscal period AOCI balance | $ 5,742 | $ 3,358 | $ 1,521 |

(a) AOCI for the period ended December 30, 2017 has been adjusted from previously reported amounts as a result of the adoption of ASU 2018-02 as discussed in Notes 1 and 12.

As of June 30, 2018, the estimated pre-tax portion of AOCI that is expected to be reclassified into earnings over the next twelve months is $2.5 million. Cash flows related to the interest rate swaps are included in operating activities on the condensed 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 three months ended | | Fiscal six months ended | |
|---|---|---|---|---|---|
| | | June 30, 2018 | July 1, 2017 | June 30, 2018 | July 1, 2017 |
| Effective portion of gains (losses) recognized in OCI during the period | Other comprehensive income (loss) | $ 737 | $ (250) | $ 3,205 | $ 211 |
| Ineffective portion of gains recognized in earnings during the period | Interest expense, net | 19 | 15 | 47 | 21 |

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

| | Fiscal three months ended | | Fiscal six months ended | |
|---|---|---|---|---|
| | June 30, 2018 | July 1, 2017 | June 30, 2018 | July 1, 2017 |
| Income tax expense (benefit) of interest rate swaps on AOCI | $ 185 | $ (98 ) | $ 821 | $ 82 |

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 June 30, 2018, it could have been required to post full collateral or settle its obligations under the Company’s interest rate swap agreements. However, as of June 30, 2018, the Company had not breached any of these provisions or posted any collateral related to the underlying interest rate swap agreements. Further, as of June 30, 2018, the net balance of each of the Company’s interest rate swaps were in a net asset position and therefore the Company would have no obligation upon default.

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 Board of Directors.

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Dividends

During the first six months of fiscal 2018 and 2017, the Board of Directors declared the following cash dividends:

| Date Declared | Dividend Amount Per Share | Record Date | Date Paid |
|---|---|---|---|
| May 9, 2018 | $ 0.31 | May 29, 2018 | June 12, 2018 |
| February 7, 2018 | $ 0.27 | February 26, 2018 | March 13, 2018 |
| | | | |
| May 8, 2017 | $ 0.27 | May 22, 2017 | June 6, 2017 |
| February 8, 2017 | $ 0.24 | February 27, 2017 | March 14, 2017 |

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

On August 8, 2018, the Company's Board of Directors declared a quarterly cash dividend of $0.31 per share of the Company's outstanding common stock. The dividend will be paid on September 11, 2018, to stockholders of record as of the close of business on August 27, 2018.

Note 8 – Treasury Stock:

The Company's Board of Directors has authorized common stock repurchases under a share repurchase program up to $3 billion, exclusive of any fees, commissions, or other expenses related to such repurchases through December 31, 2020. 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.

The Company repurchased approximately 1.5 million and 2.2 million shares of common stock under the share repurchase program for a total cost of $95.1 million and $133.6 million during the second quarters of fiscal 2018 and fiscal 2017, respectively. The Company repurchased approximately 3.8 million shares under the share repurchase program during the first six months of both fiscal 2018 and fiscal 2017 for a total cost of $252.5 million and $248.1 million, respectively. As of June 30, 2018, the Company had remaining authorization under the share repurchase program of $0.62 billion, exclusive of any fees, commissions or other expenses.

Note 9 – Income Taxes:

The Company's effective income tax rate decreased to 22.8% in the second quarter of fiscal 2018 compared to 37.0% for the second quarter of fiscal 2017. For the first six months of fiscal 2018, the effective income tax rate decreased to 22.3% compared to 36.6% for the first six months of fiscal 2017. The decrease for the second quarter and first six months of fiscal 2018 compared to the second quarter and first six months of fiscal 2017 was due primarily to the effect of the TCJA, which was signed into law in December 2017. In addition, income taxes were further reduced in the second quarter and first six months of fiscal 2018 by the realization of discrete federal and state tax credits.

Under the provisions of the TCJA, the U.S. corporate federal income tax rate decreased from 35% to 21% effective for tax years beginning after December 31, 2017. The Company made a reasonable estimate of the effects on our existing deferred tax balances as of December 30, 2017, and recognized a provisional expense amount of $4.9 million, which was included as a component of income tax expense from continuing operations for fiscal 2017. The Company will recognize any changes to this provisional amount as we refine our estimates of our cumulative temporary differences and interpretations of guidance related to the application of the TCJA.

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Note 10 – Commitments and Contingencies:

Construction and Real Estate Commitments

At June 30, 2018, the Company had contractual commitments of approximately $30.0 million related to the ongoing construction of its new distribution center in Frankfort, New York. There were no material commitments related to real estate or construction projects extending greater than twelve months.

Letters of Credit

At June 30, 2018, there were $39.9 million of 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 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.

Note 11 – 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 the fiscal three months and six months ended June 30, 2018 and July 1, 2017:

| Product Category: | Fiscal three months ended June 30, 2018 | Fiscal three months ended July 1, 2017 | Fiscal six months ended June 30, 2018 | Fiscal six months ended July 1, 2017 |
|---|---|---|---|---|
| Livestock and Pet | 44 % | 45 % | 48 % | 48 % |
| Seasonal, Gift and Toy Products | 24 | 23 | 21 | 20 |
| Hardware, Tools and Truck | 21 | 21 | 21 | 21 |
| Agriculture | 6 | 6 | 4 | 5 |
| Clothing and Footwear | 5 | 5 | 6 | 6 |
| Total | 100 % | 100 % | 100 % | 100 % |

Note 12 – New Accounting Pronouncements:

New Accounting Pronouncements Recently Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” which

implemented a one-year deferral of ASU 2014-09. As a result of the deferral, the amendments in ASU 2014-09 are effective for reporting periods beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” which further clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,” which further clarifies the aspects of (a) identifying performance obligations and (b) the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12 “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,” which provides implementation guidance in regards to (a) assessing the collectability criterion, (b) the presentation of taxes collected from customers, (c) noncash consideration, (d) contract modification at transition, (e) completed contracts at transition

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and (f) other technical corrections. In December 2016, the FASB issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," which is intended to clarify the codification and to correct unintended application of guidance pertaining to Topic 606 and other Topics amended by ASU 2014-09 to increase stakeholders' awareness of the proposals and to expedite improvements to ASU 2014-09. The effective date and transition requirements for ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 are the same as the effective date and transition requirements of ASU 2014-09. Entities that transition to these standards may either retrospectively restate each prior reporting period or reflect the cumulative effect of initially applying the updates with an adjustment to retained earnings at the date of adoption. The Company adopted this guidance in the first quarter of fiscal 2018 using the modified retrospective transition method. Based on an evaluation of the standard as a whole, the Company identified customer incentives and principal versus agent considerations as the areas that were principally affected by the new revenue recognition guidance. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless (a) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified, (b) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and (c) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in ASU 2017-09 are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not been issued. The amendments in ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date. The Company adopted this guidance in the first quarter of fiscal 2018. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the TCJA. This guidance is effective for all entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The amendments in ASU 2018-02 should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized. The Company adopted this guidance in the first quarter of fiscal 2018 using a retrospective application, which resulted in the reclassification of $0.6 million from accumulated other comprehensive income to retained earnings in the Consolidated Balance Sheet as of December 30, 2017. No other periods presented were affected by the adoption of this accounting guidance.

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." The new guidance provides SEC Staff views on income tax accounting implications of the TCJA signed into law in December 2017. The guidance clarifies the measurement period timeframe, changes in subsequent reporting periods and reporting requirements as a result of the TCJA. The Company adopted this guidance in the first quarter of fiscal 2018. As further discussed in Note 9, the Company recorded a provisional impact of the TCJA in fiscal 2017 and will recognize any changes to this provisional amount as we refine our estimates of our cumulative temporary differences and interpretations of guidance related to the application of the TCJA. The adoption of this guidance has not had, nor is expected to have, a material impact on our Consolidated Financial Statements and related disclosures.

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued 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. The Company intends to adopt this guidance in the first quarter of fiscal 2019 using the optional transition method provided by

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ASU 2018-11. The Company is currently evaluating the impact that adoption of this guidance will have on its Consolidated Financial Statements and related disclosures but expects the guidance to have a material impact on its Consolidated Balance Sheet as a result of the requirement to recognize right-of-use assets and lease liabilities.

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 is currently assessing the impact that adoption of this guidance will have on its 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 does not expect the adoption of this guidance to have a material impact on its Consolidated Financial Statements and related disclosures.

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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 30, 2017. This Form 10-Q also contains forward-looking statements and 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 sales and earnings growth, estimated results of operations in future periods, the declaration and payment of dividends, 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.

As with any business, many aspects of our operations are subject to influences outside our control. These factors include, without limitation, national, regional and local economic conditions affecting consumer spending, the timing and acceptance of new products in the stores, the timing and mix of goods sold, purchase price volatility (including inflationary and deflationary pressures), the ability to increase sales at existing stores, the ability to manage growth and identify suitable locations, failure of an acquisition to produce anticipated results, the ability to successfully manage expenses and execute our key gross margin enhancing initiatives, the availability of favorable credit sources, capital market conditions in general, the ability to open new stores in the manner and number currently contemplated, the impact of new stores on our business, competition, including that from online competitors, weather conditions, the seasonal nature of our business, effective merchandising initiatives and marketing emphasis, the ability to retain vendors, reliance on foreign suppliers, the ability to attract, train and retain qualified employees, product liability and other claims, changes in federal, state or local regulations, the imposition of tariffs on imported products or the disallowance of tax deductions on imported products, 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 our information systems, failure to develop and implement new technologies, the failure of customer-facing technology systems, business disruption including from the implementation of supply chain technologies, effective tax rate changes and results of examination by taxing authorities, including anticipated effects as a result of the U.S. Tax Cuts and Jobs Act (the "TCJA"), the ability to maintain an effective system of internal control over financial reporting, and changes in accounting standards, assumptions and estimates. 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 30, 2017. 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.

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.

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Comparable Store Sales

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

Results of Operations

Fiscal Three Months (Second Quarter) Ended June 30, 2018 and July 1, 2017

Net sales for the second quarter of fiscal 2018 increased 9.7% to $2.21 billion from $2.02 billion in the second quarter of fiscal 2017. Comparable store sales for the second quarter of fiscal 2018 were $2.13 billion, a 5.6% increase as compared to the second quarter of fiscal 2017. Comparable store sales increased 2.2% for the second quarter of fiscal 2017.

The comparable store sales results in the second quarter of fiscal 2018 included increases in comparable average ticket of 3.7% and transaction count of 1.8% compared to the prior year's second quarter. The increase in comparable store sales was primarily driven by broad-based strength in everyday merchandise, along with robust growth across spring and summer seasonal categories. All merchandise categories delivered increased comparable store sales, as did all geographic regions. The increase in comparable average ticket resulted principally from strength in big ticket merchandise as well as the favorable impact of inflation.

In addition to comparable store sales growth in the second quarter of fiscal 2018, sales from stores open less than one year were $86.6 million in the second quarter of fiscal 2018, which represented 4.3 percentage points of the 9.7% increase over second quarter fiscal 2017 net sales. For the second quarter of fiscal 2017, sales from stores open less than one year were $119.6 million, which represented 6.5 percentage points of the 8.9% increase over second quarter fiscal 2016 net sales. Acquired Petsense stores are considered comparable beginning in the fourth quarter of fiscal 2017.

The following table summarizes our store growth for the fiscal three months ended June 30, 2018 and July 1, 2017:

| | Fiscal three months ended | |
|---|---|---|
| | June 30, 2018 | July 1, 2017 |
| Tractor Supply | | |
| Store count, beginning of period | 1,700 | 1,617 |
| New stores opened | 25 | 14 |
| Stores closed | — | (1) |
| Store count, end of period | 1,725 | 1,630 |
| Petsense | | |
| Store count, beginning of period | 172 | 152 |
| New stores opened | 3 | 8 |
| Stores closed | (1) | — |
| Store count, end of period | 174 | 160 |
| Consolidated store count, end of period | 1,899 | 1,790 |

| | | |
|---|---|---|
| Stores relocated | 2 | 1 |

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The following table indicates the percentage of net sales represented by each of our major product categories for the fiscal three months ended June 30, 2018 and July 1, 2017:

| Product Category: | Fiscal three months ended June 30, 2018 | July 1, 2017 |
| --- | --- | --- |
| Livestock and Pet | 44 % | 45 % |
| Seasonal, Gift and Toy Products | 24 | 23 |
| Hardware, Tools and Truck | 21 | 21 |
| Agriculture | 6 | 6 |
| Clothing and Footwear | 5 | 5 |
| Total | 100 % | 100 % |

Gross profit increased 9.2% to $769.4 million for the second quarter of fiscal 2018 from $704.7 million for the second quarter of fiscal 2017. As a percent of net sales, gross margin decreased 16 basis points to 34.8% for the second quarter of fiscal 2018 from 34.9% for the second quarter of fiscal 2017. The decline in gross margin resulted primarily from an increase in freight expense due to higher carrier rates and increased diesel fuel prices. Partially offsetting these items were the strength of the Company’s price management program and reduced promotional activity.

Selling, general and administrative (“SG&A”) expenses, including depreciation and amortization, increased 11.0% to $496.0 million for the second quarter of fiscal 2018 from $446.8 million in the second quarter of fiscal 2017. As a percent of net sales, SG&A expenses increased 27 basis points to 22.4% in the second quarter of fiscal 2018 from 22.1% in the second quarter of fiscal 2017. The increase in SG&A as a percent of net sales was primarily attributable to higher incentive compensation from the strong year-over-year growth in comparable store sales and investments in infrastructure and technology to support the Company’s strategic long-term growth initiatives. These SG&A increases were partially offset by leverage in occupancy and other costs from the increase in comparable store sales.

The effective income tax rate decreased to 22.8% in the second quarter of fiscal 2018 compared to 37.0% for the second quarter of fiscal 2017. The decrease for the second quarter of fiscal 2018 compared to the second quarter of fiscal 2017 was due primarily to the effect of the TCJA, which was signed into law in December 2017. In addition, income taxes were further reduced in the second quarter of fiscal 2018 by the realization of discrete federal and state tax credits. The Company expects the full fiscal year 2018 effective tax rate to be in a range between 23.0% and 23.5%.

As a result of the foregoing factors, net income for the second quarter of fiscal 2018 increased 29.0% to $207.3 million, or $1.69 per diluted share, as compared to net income of $160.6 million, or $1.25 per diluted share, for the second quarter of fiscal 2017.

Fiscal Six Months Ended June 30, 2018 and July 1, 2017

Net sales increased 8.8% to $3.90 billion for the first six months of fiscal 2018 from $3.58 billion for the first six months of fiscal 2017. Comparable store sales for the first six months of fiscal 2018 were $3.75 billion, a 4.7% increase over the first six months of fiscal 2017. Fiscal 2018 contained one additional sales day when compared to the prior year as the Company was open on New Year’s Day for the first time, which is estimated to have positively impacted the comparable stores sales performance in the first six months of fiscal 2018 by approximately 28 basis points. Comparable store sales increased 0.2% for the first six months of fiscal 2017.

For the first six months of fiscal 2018, the strong comparable store sales growth was broad-based across all merchandise divisions and all geographic regions. The growth in comparable store sales was led by strength in

everyday merchandise, including consumable, usable and edible products, along with strong demand for our winter seasonal products in the first quarter and robust growth in spring seasonal categories during the second quarter.

In addition to comparable store sales growth in the first six months of fiscal 2018, sales from stores open less than one year were $153.8 million for the first six months of fiscal 2018, which represented 4.3 percentage points of the 8.8% increase over the first six months of fiscal 2017 net sales. For the first six months of fiscal 2017, sales from stores open less than one year were $222.4 million, which represented 6.7 percentage points of the 7.9% increase over the first six months of fiscal 2016 net sales. Acquired Petsense stores are considered comparable beginning in the fourth quarter of fiscal 2017.

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The following table summarizes our store growth for the fiscal six months ended June 30, 2018 and July 1, 2017:

| | Fiscal six months ended | |
|---|---|---|
| | June 30, 2018 | July 1, 2017 |
| Tractor Supply | | |
| Store count, beginning of period | 1,685 | 1,595 |
| New stores opened | 40 | 38 |
| Stores closed | — | (3 ) |
| Store count, end of period | 1,725 | 1,630 |
| Petsense | | |
| Store count, beginning of period | 168 | 143 |
| New stores opened | 7 | 17 |
| Stores closed | (1 ) | — |
| Store count, end of period | 174 | 160 |
| Consolidated store count, end of period | 1,899 | 1,790 |
| | | |
| Stores relocated | 2 | 1 |

The following table indicates the percentage of net sales represented by each of our major product categories for the fiscal six months ended June 30, 2018 and July 1, 2017:

| Product Category: | Fiscal six months ended June 30, 2018 | July 1, 2017 |
|---|---|---|
| Livestock and Pet | 48 % | 48 % |
| Hardware, Tools and Truck | 21 | 21 |
| Seasonal, Gift and Toy Products | 21 | 20 |
| Clothing and Footwear | 6 | 6 |
| Agriculture | 4 | 5 |
| Total | 100 % | 100 % |

Gross profit increased 9.0% to $1.33 billion for the first six months of fiscal 2018 from $1.22 billion in the first six months of fiscal 2017. As a percent of net sales, gross margin increased seven basis points to 34.2% for the first six months of fiscal 2018 compared to 34.1% for the comparable period in fiscal 2017. The increase in gross margin was driven by the strength of the Company's price management program, strong sell through of winter and spring seasonal merchandise and reduced promotional activity, partially offset by an increase in freight expense due to higher carrier rates and increased diesel fuel prices.

Total SG&A expenses, including depreciation and amortization, increased 11.1% to $964.9 million in the first six months of fiscal 2018 from $868.6 million in the first six months of fiscal 2017. As a percent of net sales, SG&A expenses increased 51 basis points to 24.8% in the first six months of fiscal 2018 from 24.2% in the first six months of 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, investments in team member wages at both the stores and distribution centers, and investments in infrastructure and technology to support the Company's strategic long-term 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.

For the first six months of fiscal 2018, the effective income tax rate decreased to 22.3% compared to 36.6% for the first six months of fiscal 2017. The decrease for the first six months of fiscal 2018 compared to the first six months of fiscal 2017 was due primarily to the effect of the TCJA, which was signed into law in December 2017. In addition, income taxes were further reduced in the first six months of fiscal 2018 by the realization of discrete federal and state tax credits. The Company expects the full fiscal year 2018 effective tax rate to be in a range between 23.0% and 23.5%.

As a result of the foregoing factors, net income for the first six months of fiscal 2018 increased 26.1% to $278.7 million compared to $221.0 million in the first six months of fiscal 2017. Net income per diluted share for the first six months of fiscal 2018 increased to $2.25 from $1.70 in the first six months of fiscal 2017.

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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, capital and operating 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.

The Company believes that its existing cash balances, expected cash flow from future operations, funds available under its debt facilities, operating and capital leases and normal trade credit will be sufficient to fund its operations and its capital expenditure needs, including new store openings, store acquisitions, relocations and renovations and distribution facility capacity, through the end of fiscal 2018.

Working Capital

At June 30, 2018, the Company had working capital of $869.2 million, which increased $63.0 million from December 30, 2017, and increased $45.2 million from July 1, 2017. The shifts in working capital were attributable to changes in the following components of current assets and current liabilities (in millions):

| | June 30, 2018 | December 30, 2017 | Variance | July 1, 2017 | Variance |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash and cash equivalents | $ 70.0 | $ 109.1 | $ (39.1 ) | $ 67.8 | $ 2.2 |
| Inventories | 1,632.3 | 1,453.2 | 179.1 | 1,468.3 | 164.0 |
| Prepaid expenses and other current assets | 103.3 | 88.3 | 15.0 | 90.4 | 12.9 |
| Income taxes receivable | 5.1 | 4.8 | 0.3 | 4.0 | 1.1 |
| Total current assets | 1,810.7 | 1,655.4 | 155.3 | 1,630.5 | 180.2 |
| Current liabilities: | | | | | |
| Accounts payable | 649.7 | 576.6 | 73.1 | 510.8 | 138.9 |
| Accrued employee compensation | 22.8 | 31.6 | (8.8 ) | 14.3 | 8.5 |
| Other accrued expenses | 205.3 | 201.7 | 3.6 | 184.9 | 20.4 |
| Current portion of long-term debt | 25.0 | 25.0 | — | 20.0 | 5.0 |
| Current portion of capital lease obligations | 3.7 | 3.5 | 0.2 | 3.4 | 0.3 |
| Income taxes payable | 35.0 | 10.8 | 24.2 | 73.1 | (38.1 ) |
| Total current liabilities | 941.5 | 849.2 | 92.3 | 806.5 | 135.0 |
| Working capital | $ 869.2 | $ 806.2 | $ 63.0 | $ 824.0 | $ 45.2 |

In comparison to December 30, 2017, working capital as of June 30, 2018, was impacted most significantly by changes in inventories, accounts payable, cash and income taxes payable.

- The increase in inventories and accounts payable resulted primarily from the purchase of additional inventory to support new store growth as well as an increase in average inventory per store principally due to normal seasonal patterns.
- The decrease in cash is primarily due to the repurchase of common stock, capital expenditures and quarterly cash dividends, partially offset by cash provided by operations and incremental borrowings under our existing debt facilities.

- The increase in income taxes payable is due to the timing of tax payments.

In comparison to July 1, 2017, working capital as of June 30, 2018 was impacted most significantly by changes in inventories, accounts payable and income taxes payable.

- The increase in inventories and accounts payable resulted primarily from the purchase of additional inventory to support new store growth. Additionally, average inventory per store increased slightly due to commodity inflation and increased

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in-stock positions in select inventory categories. Accounts payable increased at a higher proportional rate than the increase in inventory which was due principally to the timing of payments.

- The decrease in income taxes payable is due to the timing of payments and a reduced year-over-year tax liability stemming from the impacts of the TCJA.

Debt

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

| | June 30, 2018 | December 30, 2017 | July 1, 2017 |
|---|---|---|---|
| Senior Notes | $150.0 | $ 150.0 | $— |
| Senior Credit Facility: | | | |
| February 2016 Term Loan | 170.0 | 180.0 | 185.0 |
| June 2017 Term Loan | 95.0 | 97.5 | 100.0 |
| Revolving credit loans | 128.0 | — | 170.0 |
| Total outstanding borrowings | 543.0 | 427.5 | 455.0 |
| Less: unamortized debt issuance costs | (1.6) | (1.4) | (1.3) |
| Total debt | 541.4 | 426.1 | 453.7 |
| Less: current portion of long-term debt | (25.0) | (25.0) | (20.0) |
| Long-term debt | $516.4 | $ 401.1 | $433.7 |
| | | | |
| Outstanding letters of credit | $39.9 | $ 39.6 | $44.3 |

For additional information about the Company's debt and credit facilities, refer to Note 5 to the Condensed Consolidated Financial Statements. Refer to Note 6 to the Condensed Consolidated Financial Statements for information about the Company's interest rate swap agreements.

Operating Activities

Operating activities provided net cash of $274.0 million and $227.5 million in the first six months of fiscal 2018 and fiscal 2017, respectively. The $46.5 million increase in net cash provided by operating activities in the first six months of fiscal 2018 compared to the first six months of fiscal 2017 is due to changes in the following operating activities (in millions):

| | Fiscal six months ended | | |
|---|---|---|---|
| | June 30, 2018 | July 1, 2017 | Variance |
| Net income | $278.7 | $221.0 | $ 57.7 |
| Depreciation and amortization | 86.4 | 80.8 | 5.6 |
| Share-based compensation expense | 16.4 | 15.1 | 1.3 |
| Deferred income taxes | (2.3) | (7.7) | 5.4 |
| Inventories and accounts payable | (106.0) | (107.3) | 1.3 |
| Prepaid expenses and other current assets | (15.1) | 0.1 | (15.2) |
| Accrued expenses | (12.8) | (44.9) | 32.1 |
| Income taxes | 23.9 | 67.3 | (43.4) |
| Other, net | 4.8 | 3.1 | 1.7 |
| Net cash provided by operating activities | $274.0 | $227.5 | $ 46.5 |

The $46.5 million increase in net cash provided by operating activities in the first six months of fiscal 2018 compared with the first six months of fiscal 2017 resulted principally from incremental profitability, partially offset by the net

impact of changes in our operating assets and liabilities which fluctuated due primarily to the timing of payments.

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Investing Activities

Investing activities used cash of $116.4 million and $85.8 million in the first six months of fiscal 2018 and fiscal 2017, respectively. The increase in cash used for investing activities primarily reflects an increase in capital expenditures and a net reduction in cash proceeds from the sale of property and equipment of $10.5 million in the first six months of fiscal 2018 compared to fiscal 2017. Capital expenditures for the first six months of fiscal 2018 and fiscal 2017 were as follows (in millions):

| | Fiscal six months ended | |
|---|---|---|
| | June 30, 2018 | July 1, 2017 |
| Information technology | $38.5 | $34.3 |
| Distribution center capacity and improvements | 33.8 | 6.3 |
| New and relocated stores and stores not yet opened | 32.8 | 35.2 |
| Existing stores | 11.5 | 20.7 |
| Corporate and other | 0.1 | 0.1 |
| Total capital expenditures | $116.7 | $96.6 |

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

Spending for distribution center capacity and improvements increased due to the expansion of our distribution center in Waverly, Nebraska, which was completed in the first quarter of fiscal 2018, and the ongoing construction of a new northeast distribution center in Frankfort, New York, which is expected to be operational by the first quarter of fiscal 2019.

In the first six months of fiscal 2018, the Company opened 40 new Tractor Supply stores compared to 38 new Tractor Supply stores during the first six months of fiscal 2017. The Company also opened seven new Petsense stores during the first six months of fiscal 2018, compared to 17 new Petsense stores during the first six months of fiscal 2017. We expect to open approximately 80 new Tractor Supply stores during fiscal 2018 compared to 101 new Tractor Supply stores in fiscal 2017. We also expect to open approximately 20 new Petsense stores during fiscal 2018 compared to 25 new Petsense stores in fiscal 2017. The reduction in new store openings in fiscal 2018 compared to fiscal 2017 principally reflects a shift in capital allocation toward investments in information technology and supply chain infrastructure to support our strategic long-term growth initiatives.

The decrease in capital expenditures related to existing stores is due to the cycling of spend related to our investment in the chain-wide LED lighting retrofit initiative which was completed in fiscal 2017.

Financing Activities

Financing activities used net cash of $196.8 million and $127.8 million in the first six months of fiscal 2018 and fiscal 2017, respectively. The $69.0 million change in net cash from financing activities in the first six months of fiscal 2018 compared to the first six months of fiscal 2017 is due to changes in the following financing activities (in millions):

| | Fiscal six months ended | | |
|---|---|---|---|
| | June 30, 2018 | July 1, 2017 | Variance |
| Net borrowings and repayments under debt facilities | $115.5 | $180.0 | $(64.5) |
| Repurchase of common stock | (252.5) | (248.1) | (4.4) |

| | | | |
|---|---|---|---|
| Net proceeds from issuance of common stock | 14.3 | 7.8 | 6.5 |
| Cash dividends paid to stockholders | (71.4 ) | (65.9 ) | (5.5 ) |
| Other, net | (2.7 ) | (1.6 ) | (1.1 ) |
| Net cash used in financing activities | $(196.8) | $(127.8) | $(69.0 ) |

The $69.0 million change in net cash from financing activities in the first six months of fiscal 2018 compared with the first six months of fiscal 2017 is due to a decrease in borrowings, net of repayments, under our debt facilities.

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Dividends

During the first six months of fiscal 2018 and 2017, the Board of Directors declared the following cash dividends:

| Date Declared | Dividend Amount Per Share | Record Date | Date Paid |
| --- | --- | --- | --- |
| May 9, 2018 | $ 0.31 | May 29, 2018 | June 12, 2018 |
| February 7, 2018 | $ 0.27 | February 26, 2018 | March 13, 2018 |
| | | | |
| May 8, 2017 | $ 0.27 | May 22, 2017 | June 6, 2017 |
| February 8, 2017 | $ 0.24 | February 27, 2017 | March 14, 2017 |

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

On August 8, 2018, the Company's Board of Directors declared a quarterly cash dividend of $0.31 per share of the Company's outstanding common stock. The dividend will be paid on September 11, 2018, to stockholders of record as of the close of business on August 27, 2018.

Share Repurchase Program

The Company's Board of Directors has authorized common stock repurchases under a share repurchase program up to $3 billion, exclusive of any fees, commissions or other expenses related to such repurchases, through December 31, 2020. 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.

The Company repurchased approximately 1.5 million and 2.2 million shares of common stock under the share repurchase program for a total cost of $95.1 million and $133.6 million during the second quarters of fiscal 2018 and fiscal 2017, respectively. The Company repurchased approximately 3.8 million shares under the share repurchase program during the first six months of both fiscal 2018 and fiscal 2017 for a total cost of $252.5 million and $248.1 million, respectively. As of June 30, 2018, the Company had remaining authorization under the share repurchase program of $0.62 billion, exclusive of any fees, commissions or other expenses.

Off-Balance Sheet Arrangements

The Company's off-balance sheet arrangements are limited to operating leases and outstanding letters of credit. The Company typically leases buildings for retail stores rather than acquiring these assets, which allows the Company to utilize financial capital to operate the business rather than invest in fixed assets. Letters of credit allow the Company to purchase inventory, primarily sourced overseas, in a timely manner and support certain risk management programs.

Significant Contractual Obligations and Commercial Commitments

At June 30, 2018, the Company had contractual commitments of approximately $30.0 million related to the ongoing construction of its new distribution center in Frankfort, New York. There were no material commitments related to real estate or construction projects extending greater than twelve months.

At June 30, 2018, there were $39.9 million of outstanding letters of credit under the 2016 Senior Credit Facility.

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Significant Accounting Policies and Estimates

Management's discussion and analysis of the Company's financial position and results of operations are based upon its 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. The Company's significant accounting policies, including areas of critical management judgments and estimates, have primary impact on the following financial statement areas:

| | |
|---|---|
| - Inventory valuation | - Income tax contingencies |
| - Self-insurance reserves | - Impairment of long-lived assets |
| - Sales tax audit reserve | - Impairment of goodwill and other indefinite-lived intangible assets |

See the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2017, for a discussion of the Company's critical accounting policies. The Company's financial position and/or results of operations may be materially different when reported under different conditions or when using different assumptions in the application of such policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information.

New Accounting Pronouncements

Refer to Note 12 to the Condensed Consolidated Financial Statements for recently adopted accounting pronouncements and recently issued accounting pronouncements not yet adopted as of June 30, 2018.

Item 3. 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 5 to the unaudited condensed consolidated financial statements) which bear interest based on variable rates.

As discussed in Note 6 to the unaudited condensed 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 these 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 $0.7 million and $0.8 million in the three months ended June 30, 2018 and July 1, 2017, respectively, and $1.0 million and $1.6 million in the six months ended June 30, 2018 and July 1, 2017, respectively.

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 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, growing economies of scale from increased volume of purchases, adjusting retail prices and selectively buying from the most competitive vendors without sacrificing quality.

## 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 June 30, 2018. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of June 30, 2018, our disclosure controls and procedures were effective.

Internal Control over Financial Reporting

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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various litigation matters arising in the ordinary course of business. The Company believes that any estimated loss related to such matters has been adequately provided 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.

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 30, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Stock repurchase activity during the second quarter of fiscal 2018 was as follows:

| 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 |
|---|---|---|---|---|
| April 1, 2018 - April 28, 2018 | 1,040,000 | $ 61.08 | 1,040,000 | $648,765,946 |
| April 29, 2018 - May 26, 2018 | 250,000 | 69.58 | 250,000 | 631,374,262 |
| May 27, 2018 - June 30, 2018 | 187,200 | 75.66 | 187,200 | 617,214,452 |
| Total | 1,477,200 | $ 64.37 | 1,477,200 | $617,214,452 |

Share repurchases were made pursuant to the share repurchase program described under Part I Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations. 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 and other applicable legal requirements.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.



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Item 6. Exhibits

| Exhibit | |
|---|---|
| 10.1 | 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). |
| 10.2* | Form of Nonqualified Stock Option Agreement under the Tractor Supply Company 2018 Omnibus Incentive Plan.+ |
| 10.3* | Form of Restricted Share Unit Agreement under the Tractor Supply Company 2018 Omnibus Incentive Plan.+ |
| 10.4* | Form of Performance Share Unit Agreement for Officers under the Tractor Supply Company 2018 Omnibus Incentive Plan.+ |
| 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. |
| 101 | The following financial information from our Quarterly Report on Form 10-Q for the second quarter of fiscal 2018, filed with the Securities and Exchange Commission on August 9, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets at June 30, 2018, December 30, 2017 and July 1, 2017, (ii) the Condensed Consolidated Statements of Income for the fiscal three and six months ended June 30, 2018 and July 1, 2017, (iii) the Condensed Consolidated Statements of Comprehensive Income for the fiscal three and six months ended June 30, 2018 and July 1, 2017, (iv) the Condensed Consolidated Statements of Cash Flows for the fiscal six months ended June 30, 2018 and July 1, 2017, and (v) the Notes to Unaudited Condensed Consolidated Financial Statements. |

* Filed herewith
\+ Management contract or compensatory plan or arrangement

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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: August 9, 2018 By: /s/ Kurt D. Barton
Kurt D. Barton
Senior Vice President - Chief Financial Officer and Treasurer
(Duly Authorized Officer and Principal Financial Officer)