

TRACTOR SUPPLY CO /DE/
Form 10-K
February 23, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 25, 2010

or

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

For the transition period from _____ to _____.
Commission file number 000-23314

TRACTOR SUPPLY COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

13-3139732
(I.R.S. Employer Identification
No.)

200 Powell Place, Brentwood, Tennessee
(Address of Principal Executive Offices)

37027
(Zip Code)

Registrant's Telephone Number, Including
Area Code:

(615) 440-4000

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

Title of each class
Common Stock, \$.008 par value

Name of each exchange on which registered
NASDAQ Global Select Market

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

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

YES NO

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

YES NO

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

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YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

YES NO

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

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

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

(Do not check if a smaller reporting company)

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

YES NO

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing price of the Common Stock on The NASDAQ Global Select Market on June 25, 2010, the last business day of the registrant's most recently completed second fiscal quarter, was \$2,037,338,136. For purposes of this response, the registrant has assumed that its directors, executive officers, and beneficial owners of 5% or more of its Common Stock are the affiliates of the registrant.

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

Class	Outstanding at January 22, 2011
Common Stock, \$.008 par value	72,805,868

Documents Incorporated by Reference:

Portions of the Registrant's definitive Proxy Statement for its 2011 Annual Meeting of Shareholders are incorporated by reference into Part III hereof.

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FORWARD-LOOKING STATEMENTS OR INFORMATION

This Form 10-K and statements included or incorporated by reference in this Form 10-K include certain historical and forward-looking information. The forward-looking statements included are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the “Act”). All statements, other than statements of historical facts, which address activities, events or developments that we expect or anticipate will or may occur in the future, including such things as future capital expenditures (including their amount and nature), business strategy, expansion and growth of the business operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, we are identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written. These factors include, without limitation, general economic conditions affecting consumer spending, the timing and acceptance of new products in the stores, the 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 and negotiate favorable lease agreements on new and relocated stores, the ability to manage expenses, the availability of favorable credit sources, capital market conditions in general, failure to open new stores in the manner currently contemplated, the impact of new stores on our business, competition, 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, on-going and potential legal or regulatory proceedings, management of our information systems, effective tax rate changes and results of examination by taxing authorities, the ability to maintain an effective system of internal control over financial reporting and those described in Item 1A. “Risk Factors.” Forward-looking statements are based on currently available information and are based on our current expectations and projections about future events. We undertake no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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PART I

Item 1. Business

Overview

Tractor Supply Company is the largest operator of retail farm and ranch stores in the United States and is focused on supplying the lifestyle needs of recreational farmers and ranchers and those who enjoy the rural lifestyle, as well as tradesmen and small businesses. We operate retail stores under the names Tractor Supply Company and Del's Farm Supply and operate a website under the name TractorSupply.com. Our stores are located in towns outlying major metropolitan markets and in rural communities, and they offer the following comprehensive selection of merchandise:

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

Our Tractor Supply stores typically range in size from 15,500 to 18,500 square feet of inside selling space and additional outside selling space. We use a standard 15,500 square foot prototype for most new purpose-built locations. For new stores located in existing buildings, one of several layout formats is utilized.

Our wholly-owned subsidiary, Del's Farm Supply, LLC ("Del's"), operated 26 stores as of December 25, 2010 in Washington, Oregon, Idaho and Hawaii. Del's stores currently range in size from approximately 2,000 to 6,000 square feet of inside selling space plus additional outside and covered/sheltered selling space.

Tractor Supply Company has one reportable industry segment – farm and ranch retail sales, both at our retail locations and online.

At December 25, 2010, we operated 1,001 retail farm and ranch stores in 44 states.

Seasonality and Weather

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

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

Business Strategy

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

Market Niche

We have identified a specialized market niche: supplying the lifestyle needs of recreational farmers 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. By focusing our product mix on these core customers, we believe we are differentiated from general

merchandise, home center and other specialty retailers.

Customer Service

We are committed to providing our customers a high level of in-store service through our motivated, well-trained store team members. We believe the ability of our store team members to provide friendly, responsive and seasoned advice helps to promote strong customer loyalty and repeat shopping. As such, we seek to provide our store team members with decision-making authority, product knowledge and training to enable them to meet our customers' needs.

We endeavor to staff our stores with courteous, highly motivated team members and devote considerable resources to training store team members, often in cooperation with our vendors. Our training programs include (i) a full management training program which covers all aspects of our operations, (ii) product knowledge modules produced in conjunction with key vendors, (iii) frequent management skills training classes, (iv) semi-annual store manager meetings with vendor product presentations, (v) vendor sponsored in-store training programs and (vi) ongoing product information updates from our management headquarters, the Store Support Center. We seek to hire and train store team members with farming and ranching backgrounds, with particular emphasis on general maintenance, equine and welding.

Our online shopping site is TractorSupply.com. The availability of certain of our products online provides our customers the ability to purchase products and have them shipped to one of our retail stores, their homes or offices. We believe this capability further enhances customer service and extends our market to areas where our retail stores are not currently located.

We offer proprietary, private label credit cards for individuals and business customers. In addition, we accept cash, checks, debit cards, Visa, MasterCard, American Express and Discover credit cards and gift cards.

Store Environment

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

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Merchandising

We offer a differentiated assortment of products for our customers. Our broad product assortment is tailored to meet the regional and geographic needs of our markets, as well as the physical store size. Our full line of product offerings is supported by a strong in-stock inventory position with an average of 15,500 to 19,000 unique products per store. No one product accounted for more than 10% of our sales during 2010.

Our stores carry a wide selection of high quality, nationally recognized, name brand merchandise. We also market a growing list of products under our “private-label programs,” i.e. products manufactured for us by a number of vendors. The trademarks in the private label brand names are owned by us. Our private label brands include:

- Producers Pride and Dumor (livestock feed)
- Retriever, Paws ‘n Claws, and 4health (pet foods)
- Huskee (outdoor power equipment)
- C.E. Schmidt (apparel and footwear)
- Countyline (livestock, farm and ranch equipment)
- Royal Wing (bird feeding supplies)
- Traveller (truck/automotive products)
- Masterhand and JobSmart (tools and tool chests)
- Groundwork (lawn and garden supplies)
- Bit & Bridle (apparel)
- Red Shed (gifts and collectibles)

We believe that the availability of high quality private label products at compelling prices provides superior value for our customers, a strategic advantage for us, and positions us as a destination store.

The following chart indicates the average percentages of sales represented by each of our major product categories during fiscal 2010, 2009 and 2008.

Product Category	Percent of Sales					
	2010		2009 (a)		2008 (a)	
Livestock and Pet	39	%	39	%	37	%
Hardware, Tools and Truck	23		23		24	
Seasonal, Gift and Toy						
Products	22		22		23	
Clothing and Footwear	10		10		9	
Agriculture	6		6		7	
	100	%	100	%	100	%

(a)Reclassified to conform to current year presentation.

Purchasing

We offer a differentiated assortment of products that are sourced through domestic and international vendors for those seeking to enjoy the “Out Here” lifestyle. Our business is not dependent upon any one vendor or particular group of vendors. We purchase our products from a core group of approximately 700 vendors, with no one vendor representing more than 10% of our purchases during fiscal 2010. Approximately 250 vendors accounted for approximately 90% of our purchases during fiscal 2010. We have not experienced any significant difficulty in obtaining satisfactory alternative sources of supply for our products, and we believe that adequate sources of supply exist at substantially similar costs for nearly all of our products. We have no material long-term contractual commitments with any of our vendors.

We maintain a dedicated inventory management team to focus exclusively on all forecasting and replenishment functions. This centralized direction permits our buying teams to focus more strategic attention toward vendor line reviews, assortment planning and testing of new products and programs. Through the combined efforts of these teams, we have improved our overall inventory productivity and in-stock position.

Over 98% of our purchase orders are transmitted through an electronic data interchange ("EDI") system, and approximately 95% of merchandise vendor invoices are transmitted through EDI. We are expanding the percentage of vendors who electronically transmit invoices and increasing the amount of sales history transmitted.

Distribution

We currently operate a distribution network for supplying our stores with merchandise, and in fiscal 2010 our stores received approximately 67% of our merchandise through this network. Our six distribution centers are located in Indiana, Georgia, Maryland, Texas, Nebraska, and Washington, representing total distribution capacity of 2.9 million square feet. In 2011 we have begun construction on our seventh distribution center, a new 834,000 square foot facility in Kentucky to be operational during the fourth quarter of fiscal 2011.

We manage our inbound and outbound transportation activity in-house through the use of a web-based transportation management system. We utilize several common carriers for store deliveries. We manage our transportation costs through carrier negotiations, the monitoring of transportation routes, and the scheduling of deliveries.

Marketing

We utilize an "everyday value prices" strategy to consistently offer our products at competitive prices complemented by promotions primarily implemented during peak selling seasons. We regularly monitor prices at competing stores and adjust our prices as appropriate.

To generate store traffic and position ourselves as a destination store, we promote broad selections of merchandise with newspaper circulars, customer targeted direct mail and internet offerings. Vendors frequently support these specific programs by offering temporary cost reductions, honoring coupons and funding gift card rebate programs.

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Due to the relatively small size of our stores, increased traffic in the store ensures increased exposure to our products. Our vendors are committed to helping us promote our brand and position ourselves as a destination store. Our vendors provide assistance with product presentation and rack design, brochures, point-of-purchase materials for customers' education and product education for our team members. We also receive funding through contributions and incentives on purchases to promote new stores and earn rebates from vendors on product purchases based on volume.

Competition

We operate in a competitive retail industry. The principal competitive factors include location of stores, price and quality of merchandise, in-stock consistency, merchandise assortment and presentation, and customer service. We compete with general merchandise retailers, home center retailers and other specialty and discount retailers, as well as independently owned retail farm and ranch stores, numerous privately-held regional farm store chains and farm cooperatives. Some of these competitors are units of national or regional chains and may have substantially greater resources and financial capacities than we do. However, we believe we have successfully differentiated ourselves from these entities by focusing on our specialized market niche for customers living the rural lifestyle.

Management and Team Members

As of December 25, 2010, we employed approximately 7,900 full-time and approximately 6,800 part-time team members. We also employ additional part-time team members during peak periods. We are not party to any collective bargaining agreements.

Our store operations are organized into nine regions, including Del's. Each region is led by a regional manager and the region is further organized into districts, which are led by a district manager or area manager. Our regional managers, district managers, area managers, store managers and other distribution and support personnel have contributed significantly to our performance. We have internal advisory boards, one comprised of store managers and the other comprised of district managers. These groups bring a grassroots perspective to operational initiatives and generate chain-wide endorsement of proposed "best-practice" solutions.

We are committed to a continuous improvement program called Tractor Value System ("TVS"). TVS is a business management system that emphasizes, through team member engagement, a focus on continuous improvement. Utilizing the TVS system, we improve processes by embracing change of current practices to reduce cost, shorten lead times, and drive innovation. We have implemented numerous continuous improvement project teams (comprised of team members from all areas of our operations) to evaluate key operations and implement process changes that will improve efficiency, reduce costs and strengthen processes. Our management encourages the participation of all team members in decision-making, regularly solicits input and suggestions from our team members and incorporates suggestions into our improvement activities.

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

We encourage a "promote from within" environment when internal resources permit. We also provide internal leadership development programs designed to mentor our high potential team members for continued progress and believe we have satisfactory relationships with our team members. Our district managers, area managers, and store managers have an average length of service of approximately five years. Management believes internal promotions, coupled with the hiring of individuals with previous retail experience, will provide the management structure necessary to support our planned store growth.

Management Information and Control Systems

We have invested considerable resources in our management information and control systems to ensure superior customer service, manage the purchase and distribution of our merchandise and improve our operating efficiencies. Our management information and control systems include a point-of-sale system, a supply chain management and replenishment system, a radio frequency and voice picking system in the distribution centers, a vendor purchase order control system and a merchandise presentation system. These systems are integrated through an enterprise resource planning (“ERP”) system. This ERP system tracks merchandise from initial order through ultimate sale and interfaces with our financial systems.

We continue to evaluate and improve the functionality of our systems to maximize their effectiveness. Such efforts include ongoing hardware and software evaluations and upgrades to support optimal software configurations and application performance. We plan to upgrade our information technology and implement other efficiency-driving system enhancements (including the rollout of a new warehouse management system to distribution centers, implementation of price optimization software, point-of-sale system upgrades, and store and support center hardware refreshes) in 2011. In addition, we will continue to strengthen the security of our information systems and support the areas of store and distribution center expansion. These efforts are directed toward constantly improving the overall business processes and achieving the most efficient and effective use of the systems to manage our operations while ensuring a secure and reliable environment.

Growth Strategy

Our current and long-term growth strategy is to: (1) expand geographic market presence through opening new retail stores, (2) enhance financial performance through same-store sales increases, achieved through targeted merchandising programs with an “everyday value prices” philosophy and supported by strong customer service, (3) enhance product margin through assortment management, vendor management, global sourcing, and optimization of transportation and distribution costs, (4) leverage operating costs, especially advertising, distribution and corporate overhead, (5) expand market opportunities via internet sales, and (6) expand through selective acquisition, as such opportunities arise, to enhance penetration into new and existing markets as a complementary strategy to organic growth.

We have experienced considerable sales growth over the past five years, with a compounded annual growth rate of approximately 12.0%. We project an increase of 80 to 85 new stores in 2011, an increase of approximately 8%. We opened 74 new stores in 2010 and 76 new stores in 2009, an increase of approximately 8% and 9%, respectively.

We operated 1,001 retail farm and ranch stores in 44 states as of December 25, 2010. We have developed a proven method for selecting store sites and have identified over 800 potential additional markets for new Tractor Supply stores in the United States.

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Executive Officers of the Registrant

Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an unnumbered item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 28, 2011.

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

Name	Position	Age
James F. Wright	Chairman of the Board and Chief Executive Officer	61
Gregory A. Sandfort	President and Chief Merchandising Officer	55
Stanley L. Ruta	Executive Vice President and Chief Operating Officer	59
Anthony F. Crudele	Executive Vice President-Chief Financial Officer and Treasurer	54
Kimberly D. Vella	Senior Vice President and Chief People Officer	44

James F. Wright has served as Chairman of the Board and Chief Executive Officer of the Company since February 2009, and prior to that time served as Chairman of the Board, President and Chief Executive Officer from November 2007 to February 2009, and as President and Chief Executive Officer of the Company from October 2004 to November 2007. Mr. Wright previously served as President and Chief Operating Officer of the Company from October 2000 to October 2004. Mr. Wright has served as a director of the Company since 2002.

Gregory A. Sandfort has served as President and Chief Merchandising Officer of the Company since February 2009, and prior to that time served as Executive Vice President-Chief Merchandising Officer of the Company since November 2007. Mr. Sandfort previously served as President and Chief Operating Officer at Michaels Stores, Inc. from March 2006 to August 2007 and as Vice President – General Merchandise Manager at Michaels Stores, Inc. from January 2004 to February 2006. Mr. Sandfort served as Vice Chairman and Co-Chief Executive Officer of Kleinert's Inc. (d/b/a Buster Brown) from 2002 to 2003 and as a Vice President, General Merchandise Manager for Sears, Roebuck and Co. from 1998 to 2002.

Stanley L. Ruta has served as Executive Vice President and Chief Operating Officer of the Company since February 2009, and prior to that time served as Executive Vice President-Store Operations since January 2007, after having served as Senior Vice President-Store Operations since June 2000 and as Vice President-Store Operations of the Company since 1994.

Anthony F. Crudele has served as Executive Vice President-Chief Financial Officer and Treasurer since January 2007, after having served as Senior Vice President-Chief Financial Officer and Treasurer of the Company since November 2005. Mr. Crudele previously served as Chief Financial Officer at Gibson Guitar from August 2003 to September 2005, as Chief Financial Officer of Xcelerate Corp. from 2000 to January 2003, and at The Sports Authority from 1989 through 1999 (serving as Chief Financial Officer from 1996 through 1999).

Kimberly D. Vella has served as Senior Vice President and Chief People Officer since July 2010, and prior to that time served as Senior Vice President-Human Resources of the Company since January 2007, after having served as Vice President-Human Resources of the Company since October 2001.

Additional Information

We file reports with the Securities and Exchange Commission (“SEC”), including Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports as required. The public may read and copy any materials the Company files with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer and the SEC maintains an Internet site at sec.gov that contains the reports, proxy and information statements, and other information filed electronically.

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

Our code of ethics, which is applicable to all of our team members, including our Chief Executive Officer, Chief Financial Officer and Controller, along with our Corporate Governance Guidelines and the charters of our Audit, Compensation, Nominating and Corporate Governance Committees of our Board of Directors, is posted on our website.

Item 1A. Risk Factors

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

General economic conditions may adversely affect our financial performance.

Our results of operations may be sensitive to changes in overall economic conditions that impact consumer spending, including discretionary spending. Economic conditions affecting disposable consumer income such as employment levels, business conditions, interest rates, tax rates, fuel and energy costs, higher labor and healthcare costs, the impact of natural disasters or acts of terrorism, and other matters could reduce consumer spending or cause consumers to shift their spending to lower-priced competitors. A general reduction in the level of discretionary spending or shifts in consumer discretionary spending to our competitors could adversely affect our growth and profitability. Additionally, changes in the mix of products sold to a mix with a lower overall gross margin or other increased cost of sales, along with slower inventory turnover and greater markdowns on inventory, could adversely affect our operations and operating results.

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

Although we cannot determine the full effect of inflation and deflation on our operations, we believe our sales and results of operations are affected by both. We are subject to market risk with respect to the pricing of certain products and services, which include, among other items, steel, grain, petroleum, corn, soybean 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, economies of scale from increased volume of purchases, adjusting retail prices and selectively buying from the most competitive vendors without sacrificing quality. Due to the competitive environment, such conditions have and may continue to adversely impact our financial performance.

There is no assurance that we will be able to continue to increase sales at our existing stores.

We experience fluctuations in our same-store sales, which are defined as stores which have completed twelve months of sales. Our success depends, in part, upon our ability to improve sales at our existing stores. Various factors affect same-store sales, including the general retail sales environment, our ability to efficiently source and distribute products, changes in our merchandise mix, competition, current economic conditions, the timing of release of new merchandise and promotional events, the success of marketing programs and weather conditions. These factors may cause our same-store sales results to differ materially from prior periods and from expectations. Past same-store sales are not necessarily an indication of future results, and there can be no assurance that our same-store sales will not decrease in the future.

Even if we are able to implement, to a significant degree, our key business strategy of expanding our store base, we may experience managerial or operational problems, which may prevent any expected increase in profitability or negatively impact our cash flow. To manage our planned expansion, we must ensure the continuing adequacy of our existing systems, controls and procedures, including product distribution facilities, store management, financial controls and information systems. There can be no assurance that we will be able to achieve our planned expansion, that the new stores will be effectively integrated into our existing operations or that such stores will be profitable.

Capital requirements for growth may not be available.

The construction and opening or acquisition of new stores and the development of new production and distribution facilities, along with the remodeling and renovation of existing stores, require significant amounts of capital. In the past, our growth has been funded primarily through bank borrowings and internally generated cash flow.

Disruptions in the capital and credit markets could adversely affect the ability of the banks to mee