DOLLAR TREE INC
Form 10-Q
November 20, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)
(X) Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the quarterly period ended November 1, 2014
OR
( ) Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
Commission File Number: 0-25464
DOLLAR TREE, INC.
(Exact name of registrant as specified in its charter)

Virginia	26-2018846
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 Volvo Parkway
Chesapeake, Virginia 23320
(Address of principal executive offices)

Telephone Number (757) 321-5000
(Registrant's telephone number, including area code)

Indicate by check mark whether 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 (X) 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 shorter period that the registrant was required to submit and post such files).
Yes (X) No ( )

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

Large accelerated filer (X)	Accelerated filer ( )
Non accelerated filer ( )	Smaller reporting company ( )

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

As of November 14, 2014, there were 205,654,319 shares of the Registrant's Common Stock outstanding.

DOLLAR TREE, INC.
INDEX

		Page
	PART I - FINANCIAL INFORMATION	
Item 1.	Financial Statements:	
	Unaudited Condensed Consolidated Income Statements for the 13 and 39 Weeks Ended November 1, 2014 and November 2, 2013	3
	Unaudited Condensed Consolidated Statements of Comprehensive Income for the 13 and 39 Weeks Ended November 1, 2014 and November 2, 2013	4
	Unaudited Condensed Consolidated Balance Sheets as of November 1, 2014, February 1, 2014 and November 2, 2013	5
	Unaudited Condensed Consolidated Statements of Cash Flows for the 39 Weeks Ended November 1, 2014 and November 2, 2013	6
	Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	17
Item 4.	Controls and Procedures	18
	PART II - OTHER INFORMATION	
Item 1.	Legal Proceedings	18
Item 1A.	Risk Factors	18
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 3.	Defaults Upon Senior Securities	22
Item 4.	Mine Safety Disclosures	22
Item 5.	Other Information	22
Item 6.	Exhibits	23
	Signatures	24

Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

DOLLAR TREE, INC.
CONDENSED CONSOLIDATED INCOME STATEMENTS
(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
(in millions, except per share data)	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net sales	$2,095.2	$1,884.7	$6,126.6	$5,605.4
Cost of sales	1,369.9	1,224.8	4,010.7	3,640.8
Gross profit	725.3	659.9	2,115.9	1,964.6
Selling, general and administrative expenses	505.6	455.6	1,459.3	1,342.5
Operating income	219.7	204.3	656.6	622.1
Interest expense, net	9.3	5.2	25.8	6.4
Other expense, net	1.1	0.3	1.2	0.5
Income before income taxes	209.3	198.8	629.6	615.2
Provision for income taxes	76.3	73.4	236.9	231.6
Net income	$133.0	$125.4	$392.7	$383.6
Basic net income per share	$0.65	$0.58	$1.91	$1.73
Diluted net income per share	$0.64	$0.58	$1.90	$1.73

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

DOLLAR TREE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
(in millions)	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net income	$133.0	$125.4	$392.7	$383.6
Foreign currency translation adjustments	(4.3)	(0.6)	(2.2)	(6.9)
Total comprehensive income	$128.7	$124.8	$390.5	$376.7

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

DOLLAR TREE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions)	November 1, 2014	February 1, 2014	November 2, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	$407.6	$267.7	$147.1
Merchandise inventories, net	1,304.9	1,035.3	1,237.4
Current deferred tax assets, net	22.1	18.9	20.0
Other current assets	61.5	56.6	83.3
Total current assets	1,796.1	1,378.5	1,487.8
Property, plant and equipment, net	1,193.4	1,094.0	1,101.9
Goodwill	168.7	169.3	171.6
Deferred tax assets, net	52.9	24.1	23.3
Other assets, net	156.6	106.0	98.2
TOTAL ASSETS	$3,367.7	$2,771.9	$2,882.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	$—	$12.8	$12.8
Accounts payable	545.0	393.9	526.4
Other current liabilities	307.2	232.3	227.6
Income taxes payable	14.3	47.3	—
Total current liabilities	866.5	686.3	766.8
Long-term debt, excluding current portion	757.0	757.0	1,007.0
Income taxes payable, long-term	6.0	5.5	5.3
Other liabilities	153.1	152.4	144.7
Total liabilities	1,782.6	1,601.2	1,923.8
Commitments and contingencies			
Shareholders' equity	1,585.1	1,170.7	959.0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,367.7	$2,771.9	$2,882.8
Common shares outstanding	205.7	208.1	208.1

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

DOLLAR TREE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	39 Weeks Ended November 1, 2014	November 2, 2013
Cash flows from operating activities:		
Net income	$392.7	$383.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	151.5	140.3
Provision for deferred taxes	(32.2)	6.9
Other non-cash adjustments to net income	33.8	32.6
Changes in operating assets and liabilities	(157.3)	(196.7)
Net cash provided by operating activities	388.5	366.7
Cash flows from investing activities:		
Capital expenditures	(254.4)	(284.1)
Purchase of restricted investments	(6.8)	—
Proceeds from sale of restricted investments	15.8	15.0
Proceeds from sale of fixed assets	1.7	—
Foreign currency loss	(0.1)	—
Other	—	(0.3)
Net cash used in investing activities	(243.8)	(269.4)
Cash flows from financing activities:		
Payments for long-term debt	(12.8)	(21.5)
Proceeds from long-term debt	—	770.0
Payments for share repurchases	—	(1,112.1)
Proceeds from stock issued pursuant to stock-based compensation plans	4.4	5.0
Tax benefit of exercises/vesting of stock-based compensation	3.6	9.6
Net cash used in financing activities	(4.8)	(349.0)
Effect of exchange rate changes on cash and cash equivalents	—	(1.1)
Net increase (decrease) in cash and cash equivalents	139.9	(252.8)
Cash and cash equivalents at beginning of period	267.7	399.9
Cash and cash equivalents at end of period	$407.6	$147.1
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$17.2	$2.8
Income taxes	$298.1	$296.9

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

DOLLAR TREE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Dollar Tree, Inc. and its wholly-owned subsidiaries (the "Company") have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and are presented in accordance with the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended February 1, 2014 contained in the Company's Annual Report on Form 10-K filed March 14, 2014. The results of operations for the 13 and 39 weeks ended November 1, 2014 are not necessarily indicative of the results to be expected for the entire fiscal year ending January 31, 2015.

In the Company's opinion, the unaudited condensed consolidated financial statements included herein contain all adjustments (including those of a normal recurring nature) considered necessary for a fair presentation of its financial position as of November 1, 2014 and November 2, 2013 and the results of its operations and cash flows for the periods presented. The February 1, 2014 balance sheet information was derived from the audited consolidated financial statements as of that date.

2. LITIGATION MATTERS

Active
Winn-Dixie Stores instituted suit in federal court in Florida alleging that the Company sold products in 48 stores in violation of a lease exclusive. In August 2012, the Court denied Winn-Dixie's claim for damages and granted Winn-Dixie’s request for injunctive relief with respect to just one store. Winn-Dixie appealed to the U.S. Court of Appeals for the 11th Circuit, which recently affirmed that Winn-Dixie is not entitled to damages. However, it also held that Winn-Dixie's restriction for 21 of the Company's Florida stores required the Company to restrict its sales of food and "many household supplies" such as "soap, matches and paper napkins" to 500 square feet of floor space for fixtures containing food and many household supplies plus a portion of the surrounding aisle. The 11th circuit remanded the case to the lower court for a new trial to determine the definition of "many household supplies" and how much aisle space should be included. Additional Florida leases may be impacted. The Company has previously restricted these 21 stores to 500 square feet of floor space for food, not including the aisle and not including many household supplies. These stores must now restrict their sales of certain household supplies further, but it is unclear how certain household products will be defined and how much aisle space must be included.
In 2011, an assistant store manager and an hourly associate filed a collective action against the Company alleging they were forced to work off the clock in violation of the Fair Labor Standards Act (FLSA) and state law. A federal judge in Virginia ruled that all claims made on behalf of assistant store managers under both the FLSA and state law should be dismissed. The court, however, certified an opt-in collective action under the FLSA on behalf of hourly sales associates. Approximately 4,300 plaintiffs remain in the case. In March 2014, the court denied the Company's motion to decertify the collective action and the case is now continuing.
In 2012, a former assistant store manager, on behalf of himself and those alleged to be similarly situated, filed a putative class action in a California state court, alleging the Company failed to provide rest breaks to assistant store managers. The alleged time period is July 13, 2008 to the present. Discovery is ongoing. The class has been certified and the case is proceeding to the liability phase.
In 2013, a former assistant store manager on behalf of himself and others alleged to be similarly aggrieved filed a representative Private Attorney General Act ("PAGA") claim under California law currently pending in federal court

in California. The suit alleges that the Company failed to provide uninterrupted meal periods and rest breaks; failed to pay minimum, regular and overtime wages; failed to maintain accurate time records and wage statements; and failed to pay wages due upon termination of employment. Discovery has not commenced. A trial date has been set for October 26, 2015.

In May 2014, a former assistant store manager filed a putative class action in a California state court for alleged failure to provide meal periods, overtime, timely payment of wages during employment and upon termination, failure to provide accurate

wage statements, as well as for alleged failure to indemnify employees for business expenses in violation of California labor laws. This matter is in early stages of litigation. Discovery has not commenced and no trial date has been set.
In September 2013, district attorneys in California initiated an investigation of whether the Company properly disposed of certain damaged retail products under Federal and California state environmental law, primarily the Resource Conservation and Recovery Act. The Company has accrued its estimated loss, which is immaterial.
In May 2014, the US Consumer Product Safety Commission ("CPSC") began a staff investigation of circumstances related to 15 Letters of Advice that the Company received from the CPSC from 2009 to 2013. The outcome of this matter cannot be determined at this time.
In July and August 2014, several shareholders of Family Dollar Stores, Inc. (“Family Dollar”) filed class actions in Delaware chancery court against Family Dollar’s CEO and board members alleging breach of fiduciary duty. Dollar Tree and Family Dollar were also named as defendants for allegedly aiding and abetting the other defendants. The claimed breach derives from the execution of the merger agreement dated July 27, 2014, between Dollar Tree and Family Dollar, which is alleged to offer unfair and inadequate consideration for Family Dollar stock. The class actions, among other things, seek to prevent the merger, obtain higher merger consideration or seek monetary damages. An injunction hearing has been scheduled for December 5, 2014.

The Company will vigorously defend itself in these matters. The Company does not believe that any of these matters will, individually or in the aggregate, have a material effect on its business or financial condition. The Company cannot give assurance, however, that one or more of these lawsuits will not have a material effect on its results of operations for the period in which they are resolved. Based on the information available to the Company, including the amount of time remaining before trial, the results of discovery and the judgment of internal and external counsel, the Company is unable to express an opinion as to the outcome of these matters and cannot estimate a potential range of loss except as specified above.
Resolved

A supermarket filed a lease exclusive case and a second companion unfair competition case against the Company in a Pennsylvania state court. These two cases have settled for immaterial amounts.
A supermarket filed a lease exclusive case against the Company in Pennsylvania state court. This case has been settled for an immaterial amount.
In 2012, two former store managers, under California's Labor Code and PAGA, instituted suit in the federal court in California on behalf of themselves and others alleged to be similarly aggrieved in the state of California, alleging they were misclassified by the Company as exempt employees. The Company settled with one plaintiff for an immaterial amount. The Company prevailed at trial in November 2013 with the other plaintiff. A final Order has been entered in favor of the Company and the Plaintiff waived his right to appeal.
3. FAIR VALUE MEASUREMENTS

The Company's cash and cash equivalents, restricted investments and diesel fuel swaps represent the financial assets and liabilities that were accounted for at fair value on a recurring basis as of November 1, 2014. As required, financial assets and liabilities are classified in the fair value hierarchy in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The fair value of the Company's cash and cash equivalents was $407.6 million and $147.1 million, at November 1, 2014 and November 2, 2013, respectively. The fair value of the Company's restricted investments was $78.9 million and $79.1 million, at November 1, 2014 and November 2, 2013, respectively. These fair values were determined using Level 1 measurements in the fair value hierarchy. The fair value of the diesel fuel swaps was a liability of $1.1 million as of November 1, 2014 and an asset of less than $0.1 million as of November 2, 2013 and was estimated using Level 2 measurements in the fair value hierarchy, which used discounted cash flow calculations based upon diesel fuel cost curves.

The estimated fair value of the Company’s long-term debt was $763.2 million as of November 1, 2014 and $1,019.8 million as of November 2, 2013. The fair value of the Senior Notes is determined through the use of a discounted cash flow analysis using Level 3 inputs as there are no quoted prices in active markets for these notes. The discount rate used in the analysis was based on borrowing rates available to the Company for debt of the same remaining maturities, issued in the same private placement debt market. The carrying value of the Company's

Unsecured Credit Agreement and Demand Revenue Bonds at November 2, 2013 approximated their fair values because the interest rates vary with market interest rates.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). There were no changes in fair value related to these assets during the 13 and 39 weeks ended November 1, 2014.

4. NET INCOME PER SHARE

The following table sets forth the calculations of basic and diluted net income per share:

	13 Weeks Ended		39 Weeks Ended	
(in millions, except per share data)	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Basic net income per share:				
Net income	$133.0	$125.4	$392.7	$383.6
Weighted average number of shares outstanding	205.6	216.6	206.1	221.4
Basic net income per share	$0.65	$0.58	$1.91	$1.73
Diluted net income per share:				
Net income	$133.0	$125.4	$392.7	$383.6
Weighted average number of shares outstanding	205.6	216.6	206.1	221.4
Dilutive effect of stock options and restricted stock (as determined by applying the treasury stock method)	1.0	1.0	0.9	1.0
Weighted average number of shares and dilutive potential shares outstanding	206.6	217.6	207.0	222.4
Diluted net income per share	$0.64	$0.58	$1.90	$1.73

For the 13 and 39 weeks ended November 1, 2014 and November 2, 2013, substantially all of the stock options outstanding were included in the calculation of the weighted average number of shares and dilutive potential shares outstanding.

5. STOCK-BASED COMPENSATION

The Company's stock-based compensation expense primarily includes the fair value of restricted stock units (RSUs) and employees' purchase rights under the Company's Employee Stock Purchase Plan. Stock-based compensation expense was $7.1 million and $31.0 million during the 13 and 39 weeks ended November 1, 2014, respectively. Stock-based compensation expense was $6.8 million and $29.6 million, during the 13 and 39 weeks ended November 2, 2013, respectively.

The Company granted approximately 0.5 million service-based RSUs from the Omnibus Incentive Plan (Omnibus Plan) to employees and officers in the 39 weeks ended November 1, 2014. The estimated $26.4 million fair value of these RSUs is being expensed ratably over the three-year vesting periods, or a shorter period based on the retirement eligibility of certain grantees. The fair value was determined using the Company's closing stock price on the date of grant. The Company recognized $2.0 million and $8.7 million of expense related to these RSUs during the 13 and 39 weeks ended November 1, 2014.

In the 39 weeks ended November 1, 2014 the Company granted 0.2 million RSUs with a fair value of $10.0 million from the Omnibus Plan to certain officers of the Company, contingent on the Company meeting certain performance targets in fiscal 2014. If the Company meets these performance targets in fiscal 2014, the RSUs will vest ratably over three years. The estimated fair value of these RSUs is being expensed ratably over the three-year vesting periods, or a shorter period based on the retirement eligibility of certain grantees. The Company recognized $0.4 million and $6.4 million of expense related to these RSUs in the 13 and 39 weeks ended November 1, 2014.

In the 39 weeks ended November 1, 2014 the Company granted RSUs with a fair value of $2.0 million from the Omnibus Plan to certain officers of the Company, contingent on the Company meeting certain performance targets for the period beginning on February 2, 2014 and ending on January 28, 2017. Provided the vesting conditions are satisfied, the awards will vest at the end of the performance period. The estimated fair value of these RSUs is being expensed ratably over the three-year vesting period, or a shorter period based on the retirement eligibility of certain grantees. The Company recognized $0.1 million and $1.0 million of expense related to these RSUs in the 13 and 39 weeks ended November 1, 2014.

The Company recognized $4.2 million and $14.0 million of expense related to RSUs granted prior to fiscal 2014 in the 13 and 39 weeks ended November 1, 2014. For the 13 and 39 weeks ended November 2, 2013, the Company recognized $4.0 million and $13.1 million of expense related to these RSUs.

In the 39 weeks ended November 1, 2014, approximately 0.8 million RSUs vested and approximately 0.5 million shares, net of taxes, were issued. During the 39 weeks ended November 2, 2013, approximately 1.0 million RSUs vested and approximately 0.6 million shares, net of taxes, were issued. In the 13 weeks ended November 1, 2014 less than 0.1 million RSUs vested. Less than 0.1 million RSUs vested in the 13 weeks ended November 2, 2013.

6. FUEL DERIVATIVE CONTRACTS

In order to manage fluctuations in cash flows resulting from changes in diesel fuel costs, the Company entered into fuel derivative contracts with third parties. The Company has entered into fuel derivative contracts for 0.8 million gallons of diesel fuel, or approximately 20% of the Company's domestic truckload fuel needs from November 2014 through January 2015. The Company has also entered into fuel derivative contracts for 6.6 million gallons of diesel fuel, or approximately 40% of the Company's domestic truckload fuel needs from February 2015 through January 2016. Under these contracts, the Company pays the third party a fixed price for diesel fuel and receives variable diesel fuel prices at amounts approximating current diesel fuel costs, thereby creating the economic equivalent of a fixed-rate obligation. These derivative contracts do not qualify for hedge accounting and therefore all changes in fair value for these derivatives are included in “Other expense, net” on the accompanying condensed consolidated income statements.

7. SHAREHOLDERS' EQUITY

Share Repurchase Program

On September 17, 2013, the Company entered into two $500.0 million variable maturity accelerated share repurchase agreements to repurchase $1.0 billion of the Company’s common shares in the aggregate. One agreement was collared and the other was uncollared.

The number of shares to be received by the Company under the collared agreement was determined based on the weighted average market price of the Company’s common stock, less a discount, during a calculation period ending on or before June 2014, subject to a minimum and maximum number of shares. Under this agreement, the Company received 7.8 million shares during the year ended February 1, 2014. This represents the minimum number of shares to be received based on a calculation using the "cap" or high-end of the price range of the "collar". On May 15, 2014 the collared agreement concluded and the Company received an additional 1.2 million shares resulting in a total of 9.0 million shares repurchased under this agreement.

The number of shares received by the Company under the uncollared agreement was determined based on the weighted average market price of the Company's common stock, less a discount, during a calculation period ending on or before June 2014. The Company received an initial delivery of 7.2 million shares during the year ended February 1,

2014. On February 14, 2014 the uncollared agreement concluded and the Company received an additional 1.9 million shares resulting in a total of 9.1 million shares repurchased under this agreement.

During the 13 and 39 weeks ended November 1, 2014 the Company did not repurchase any shares of common stock on the open market. As of November 1, 2014, the Company has $1.0 billion remaining under Board repurchase authorization.

8. PROPOSED ACQUISITION

On July 27, 2014, the Company executed an Agreement and Plan of Merger to acquire Family Dollar in a cash and stock transaction ("Merger"). Under the Merger, which has been unanimously approved by the Boards of Directors of both

companies, the Family Dollar shareholders will receive $59.60 in cash plus no more than 0.3036 and no less than 0.2484 shares of the Company's common stock for each share of Family Dollar common stock they own. The transaction is subject to Family Dollar shareholder approval, expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and other customary closing conditions. The Family Dollar shareholder meeting to approve the merger is currently scheduled for December 23, 2014.

The Company intends to finance the acquisition through a combination of cash on hand, bank debt and bonds. In connection with the transaction, the Company has received a financing commitment from JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, Bank of America, N.A., Royal Bank of Canada and U.S. Bank, National Association and others, with the bank debt syndication and bond offering expected to occur prior to closing.

On or before closing, the company is expected to incur approximately $175.0 million in merger related expenses, of which $15.2 million and $22.7 million, respectively, was incurred in the 13 and 39 weeks ended November 1, 2014. During the 13 weeks ended November 1, 2014, $14.3 million was recorded in "Selling, general and administrative expenses" and $0.9 million was recorded in "Interest expense, net." The Company also expects to expend approximately $165.0 million in capitalizable costs related to the proposed merger financing. Of this amount, $60.8 million of deferred financing costs was recorded at November 1, 2014 in "Other assets, net." At November 1, 2014, $60.1 million of merger related expenses and capitalizable costs have been accrued in "Other current liabilities."

For additional discussion of the proposed merger, please see the "Proposed Merger" section included in "Part I. Financial Information, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-Q.

NOTE 9. CREDIT AGREEMENT AMENDMENT

On August 15, 2014, the Company entered into an amendment (the "Amendment") to its five-year $750.0 million Credit Agreement (the "Existing Credit Agreement") with Wells Fargo Bank, N.A, as administrative agent and the lenders party thereto. The Amendment amends the Existing Credit Agreement to facilitate the issuance and/or borrowings of certain third-party debt financing that may be used by the Company to finance its proposed acquisition of Family Dollar. The Amendment also facilitates escrow arrangements related to the acquisition.

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

INTRODUCTORY NOTE: Unless otherwise stated, references to "we," "our" and "us" generally refer to Dollar Tree, Inc. and its direct and indirect subsidiaries on a consolidated basis.

A WARNING ABOUT FORWARD-LOOKING STATEMENTS: This document contains "forward-looking statements" as that term is used in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address future events, developments or results and typically use words such as "believe," "anticipate," "expect," "intend," "plan," “view,” “target” or "estimate." For example, our forward-looking statements include statements regarding:

- the timing of the proposed merger and whether the proposed merger will occur;
- the consideration to be paid to the Family Dollar shareholders in the proposed merger and the number of outstanding Family Dollar shares of common stock at closing;
- merger related expenses and financing costs;

- the benefits, results and effects of the proposed Family Dollar merger and the combined company's plans, objectives, expectations (financial or otherwise), including synergies, the cost to achieve synergies, and the effect on earnings per share;

- our anticipated sales, including comparable store net sales, net sales growth, earnings growth and new store growth;

- costs of pending and possible future legal claims;

- our growth plans, including our plans to add, expand or relocate stores, our anticipated square footage increase, and our ability to renew leases at existing store locations;

- the average size of our stores and their performance compared with other store sizes;

- the effect on merchandise mix of consumables and the increase in the number of our stores with freezers and coolers on gross profit margin and sales;

- the net sales per square foot, net sales and operating income of our stores;

- the potential effect of inflation and other economic changes on our costs and profitability, including the potential effect of future changes in minimum wage rates, shipping rates, domestic and import freight costs, fuel costs and wage and benefit costs;

- our gross profit margin, earnings, inventory levels and ability to leverage selling, general and administrative and other fixed costs;

- our seasonal sales patterns including those relating to the length of the holiday selling seasons;

- the capabilities of our inventory supply chain technology and other systems;

- the reliability of, and cost associated with, our sources of supply, particularly imported goods such as those sourced from China;

- the capacity, performance and cost of our distribution centers;

- our cash needs, including our ability to fund our future capital expenditures and working capital requirements;

- our expectations regarding competition and growth in our retail sector; and

- management's estimates associated with our critical accounting policies, including inventory valuation, accrued expenses and income taxes.

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the risk factors summarized below and the more detailed discussions in the "Risk Factors" and “Business” sections in our Annual Report on Form 10-K filed March 14, 2014 . Also see section 1A. “Risk Factors” in Part II of this Quarterly Report on Form 10-Q.

- Under certain circumstances if a third party makes a "company superior proposal" (as defined in our merger agreement with Family Dollar) to acquire Family Dollar, Family Dollar could pay us a termination fee, terminate our Merger Agreement and sign a merger agreement with the third party, and the proposed Merger with Dollar Tree and Family Dollar would not be completed. Dollar General Corp. has made an unsolicited conditional tender offer to buy Family Dollar for $80.00 per common share in cash subject to due diligence, regulatory, and other contingencies including entering into a merger agreement with Family Dollar and obtaining the support of certain significant Family Dollar shareholders, Howard Levine and Trian Fund Management, L.P.

- Completion of the Merger is subject to approval by Family Dollar's stockholders, expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and other customary closing

conditions. As a result the proposed Merger could fail to be completed on the proposed terms and schedule or at all, or be completed subject to conditions imposed by regulatory authorities, resulting in higher costs or reduced benefits.

- The costs and difficulties related to the proposed Merger, including, among others, the integration of Family Dollar's business and operations with our business and operations, the terms of the definitive financing arrangements, the inability to retain key personnel, litigation related to the proposed merger, competitive responses to the proposed merger, or potential adverse reactions or changes to business or

employee relationships could be more significant than we anticipate, resulting in higher costs or reduced benefits.

- We may be unable to obtain, or experience delays in obtaining, the cost savings and synergies contemplated by the proposed Merger.

- Our profitability is vulnerable to cost increases.

- A downturn in economic conditions could impact our sales.

- Litigation may adversely affect our business, financial condition and results of operations.

- A significant disruption in our computer and technology systems could adversely affect our results of operation or business.

- If we are unable to secure our customers' credit card and confidential information, or other private data relating to our associates, suppliers or our business, we could be subject to negative publicity, costly government enforcement actions or private litigation, which could damage our business reputation and adversely affect our results of operation or business.

- Changes in federal, state or local law, or our failure to comply with such laws, could increase our expenses and expose us to legal risks.

- Our growth is dependent on our ability to increase sales in existing stores and to expand our square footage profitably.

- Risks associated with our domestic and foreign suppliers from whom our products are sourced could affect our financial performance.

- We could encounter disruptions in our distribution network or additional costs in distributing merchandise.

- Our profitability is affected by the mix of products we sell.

- Pressure from competitors may reduce our sales and profits.

- Our business could be adversely affected if we fail to attract and retain qualified associates and key personnel.

- Failure to comply with our debt covenants could adversely affect our capital resources, financial condition and liquidity.

- Certain provisions in our Articles of Incorporation and Bylaws could delay or discourage a takeover attempt that may be in a shareholder's best interest.

Our forward-looking statements could be wrong in light of these and other risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. We have no obligation to publicly update or revise our forward-looking statements after the date of this quarterly report and you should not expect us to do so.

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, it is against our policy to selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, shareholders should not assume that we agree with any statement or report

issued by any analyst regardless of the content of the statement or report, as we have a policy against confirming information issued by others. Thus, to the extent that reports issued by securities analysts contain any financial projections, forecasts or opinions, such reports are not our responsibility.

Overview

Our net sales are derived from the sale of merchandise. Two major factors tend to affect our net sales trends. First is our success at opening new stores or adding new stores through mergers or acquisitions. Second is the performance of stores once they are open. Sales vary at our existing stores from one year to the next. We refer to this change as a change in comparable store net sales, because we include only those stores that are open throughout both of the periods being compared, beginning after the first fifteen months of operation. We include sales from stores expanded during the period in the calculation of comparable store net sales, which has the effect of increasing our comparable store net sales. The term “expanded” also includes stores that are relocated.

At November 1, 2014, we operated 5,077 stores in 48 states and the District of Columbia, as well as 205 stores in Canada, with a total of 45.8 million selling square feet compared to 4,953 stores with 42.9 million selling square feet at November 2, 2013. During the 39 weeks ended November 1, 2014, we opened 301 stores, expanded 66 stores and closed 11 stores, compared to 292 stores opened, 67 stores expanded and 10 stores closed during the 39 weeks ended November 2, 2013. In the 39 weeks ended November 1, 2014 we added approximately 2.6 million selling square feet compared to 2.5 million selling square feet in the 39 weeks ended November 2, 2013. The average size of stores opened during the 39 weeks ended November 1, 2014 was approximately 8,100 selling square feet. We believe that this size store is in the range of our optimal size operationally and gives our customers a shopping environment which invites them to shop longer, buy more and make return visits, which increases our customer traffic.

For the 13 and 39 weeks ended November 1, 2014, comparable store net sales increased 5.9% and 3.9%, respectively, due to increased customer traffic and higher average ticket. We believe comparable store net sales continue to be positively affected by a number of our initiatives, as debit and credit card penetration continued to increase in the 13 and 39 weeks ended November 1, 2014, and we continued the roll-out of frozen and refrigerated merchandise to more of our stores. At November 1, 2014, we had frozen and refrigerated merchandise in approximately 3,540 stores compared to approximately 3,110 stores at November 2, 2013. We believe that this has and will continue to enable us to increase sales and earnings by increasing the number of shopping trips made by our customers. In addition, we accept food stamps (under the Supplemental Nutrition Assistance Program (“SNAP”)) in approximately 4,920 qualified stores compared to approximately 4,560 stores at November 2, 2013. SNAP benefits were reduced for recipients after November 1, 2013; however, the effect on our sales has not been material.

Proposed Merger

On July 27, 2014, we executed an Agreement and Plan of Merger (the "Merger Agreement") to acquire Family Dollar in a cash and stock transaction (“Merger”). Under the Merger, which has been unanimously approved by the Boards of Directors of both companies, the Family Dollar shareholders will receive $59.60 in cash plus no more than 0.3036 and no less than 0.2484 shares of our common stock for each share of Family Dollar common stock they own. The transaction is subject to Family Dollar shareholder approval, expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and other customary closing conditions. The Family Dollar shareholder meeting to approve the merger is currently scheduled for December 23, 2014. On October 30, 2014, Family Dollar had approximately 114.4 million outstanding shares of common stock. Due to the vesting of outstanding equity awards, Family Dollar is expected to have up to an additional 2.0 million shares of common stock outstanding at closing. Family Dollar stock options and RSUs will convert in the Merger into options and RSUs in our common stock. After the Merger, we expect that former Family Dollar stockholders will own no more than 15.1% and no less than 12.7% of the outstanding shares of Dollar Tree common stock.

The transaction is subject to Family Dollar shareholder approval, expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act ("HSR Act") and other customary closing conditions. In certain instances, if the Merger Agreement is terminated, we would be due a termination fee of $305 million. On or

before closing, we expect to incur approximately $175.0 million in merger expenses, of which $15.2 million and $22.7 million were expensed in the 13 and 39 weeks ended November 1, 2014, respectively. These merger expenses do not include financing costs that will be capitalized, of which $60.8 million has been incurred as of November 1, 2014. In connection with the Merger, we expect to pay off most of our and Family Dollar's debt, and secure approximately $9.5 billion in bank and bond financing to recapitalize the combined company and finance the Merger and ongoing operations. We expect to achieve approximately $300 million in annual cost savings synergies by the end of the third year after closing, and that we will incur $300 million in one-time costs to achieve those synergies. We project that the Merger will be dilutive to earnings per share in the first twelve months following closing on a GAAP basis; however, it will be accretive excluding the one-time costs to achieve synergies.

Dollar General Corp. has made an unsolicited conditional tender offer to buy Family Dollar for $80.00 per common share in cash subject to due diligence, regulatory, and other conditions including entering into a merger agreement with Family Dollar

and obtaining the support certain significant Family Dollar shareholders, of Howard Levine and Trian Fund Management, L.P. The Merger Agreement outlines a specified process by which any such proposals are to be handled by Family Dollar. The Family Dollar Board of Directors, after carefully reviewing and considering the Dollar General proposals, has recommended that its shareholders reject the Dollar General tender offer.

Results of Operations

13 Weeks Ended November 1, 2014 Compared to the 13 Weeks Ended November 2, 2013

Net Sales. Net sales increased 11.2%, or $210.5 million, compared with last year's third quarter, resulting from increased comparable store sales and sales in our new stores. Comparable store sales increased 5.9% on a constant currency basis. Constant currency basis refers to the calculation excluding the impact of currency exchange rate fluctuations. We calculated the constant currency basis increase by translating the current year quarter’s comparable store sales in Canada using the prior year third quarter’s currency exchange rates. We believe that the constant currency basis provides a more accurate measure of comparable store sales performance. Including the impact of currency, comparable store net sales increased 5.9% primarily due to an increase in customer count as well as average ticket. Comparable store net sales are positively affected by our expanded and relocated stores, which we include in the calculation, and are negatively affected when we open new stores or expand stores near existing stores.

Gross Profit. Gross profit margin decreased to 34.6% in the current quarter from 35.0% in the same quarter last year primarily as a result of freight costs, as a percentage of sales, increasing as domestic trucking rates were higher reflecting the effects of driver shortages. Offsetting this increase, occupancy costs, as a percentage of sales, decreased due to leverage from the higher comparable store sales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the current quarter decreased to 24.1% from 24.2% in the same quarter last year, as a percentage of net sales. Excluding $14.3 million or 70 basis points of expenses related to the proposed Family Dollar acquisition, the selling, general and administrative rate as a percentage of sales was 23.4%. This decrease was primarily due to the following:

- Payroll expenses decreased 45 basis points due to leverage from the comparable store sales increase, reduced store payroll due to improved productivity, lower health care costs and lower workers' compensation expenses.
- Store operating costs decreased 15 basis points due to lower store repairs and maintenance expenses.
- Depreciation expense decreased 15 basis points due to leverage from the comparable store sales increase.

Operating Income. Operating income for the current quarter decreased to 10.5%, as a percentage of net sales, compared with the same period last year of 10.8%. Excluding the 70 basis points of expenses related to the proposed Family Dollar acquisition, operating income for the current quarter was 11.2% as a percentage of net sales. This increase is the result of improved selling, general and administrative expenses partially offset by lower gross profit margin in the current quarter as noted above.

Other expense, net. Other expense, net was $1.1 million compared to $0.3 million in the prior year quarter due to an unfavorable fair market value adjustment on diesel fuel swaps.

Interest expense, net. Interest expense, net was $9.3 million compared to $5.2 million in the prior year quarter due to interest expense related to the $750.0 million of Senior Notes issued in September 2013 and $0.9 million of fees related to the Family Dollar acquisition.

Income Taxes. Our effective tax rate for the 13 weeks ended November 1, 2014 was 36.5% compared to 36.9% for the 13 weeks ended November 2, 2013. The decrease is due to a favorable adjustment resulting from the preparation of the 2013 tax returns.

39 weeks Ended November 1, 2014 Compared to the 39 weeks Ended November 2, 2013

Net Sales. Net sales increased 9.3%, or $521.2 million, compared with the same period last year, resulting primarily from sales in our new stores and increased sales in our comparable stores. Comparable store sales increased 3.9% on a constant currency basis. Constant currency basis refers to the calculation excluding the impact of currency exchange rate fluctuations. We calculated the constant currency basis increase by translating the current year's comparable store sales in Canada using the prior year's currency exchange rates. We believe that the constant currency basis provides a more accurate measure of comparable store sales performance. Including the impact of currency,

comparable store net sales increased 3.9% primarily due to an increase in customer count as well as average ticket. Comparable store net sales are positively affected by our expanded and relocated stores, which we include in the calculation, and are negatively affected when we open new stores or expand stores near existing stores.

Gross Profit. Gross profit margin decreased to 34.5% from 35.0% in the same period last year primarily as a result of the following:

- Merchandise costs, including freight, as a percentage of sales, increased as domestic trucking rates were higher reflecting the effects of driver shortages and initial mark-up was lower as a result of investment in higher-value products.
- Distribution costs, as a percentage of sales, increased due to incremental costs from the new distribution center in Windsor, CT and higher distribution center labor costs.
- Lower merchandise mark-on due to investment in higher-value products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the 39 weeks ended November 1, 2014 decreased to 23.8%, as a percentage of net sales, compared to 23.9% for the same period last year. Excluding $21.8 million or 35 basis points of expenses related to the proposed Family Dollar acquisition, the SG&A rate as a percentage of sales was 23.5%. The decrease was primarily due to leverage from the comparable store sales increase and reduced payroll expenses due to lower store hourly payroll and health care costs.

Operating Income. Operating income for the 39 weeks ended November 1, 2014 was 10.7% as a percentage of net sales compared to 11.1% for the same period last year. Excluding the 35 basis points of expenses related to the proposed Family Dollar acquisition, operating income for the 39 weeks ended November 1, 2014 was consistent with the prior year at 11.1% as a percentage of net sales. This is the result of lower gross profit margin offset by lower selling and administrative expenses, as a percentage of sales, as noted above.

Other expense, net. Other expense, net was $1.2 million compared to $0.5 million due to an unfavorable fair market value adjustment on diesel fuel swaps.

Interest expense, net. Interest expense, net for the 39 weeks ended November 1, 2014 was $25.8 million compared to $6.4 million for the same period last year due to interest expense related to the $750.0 million of Senior Notes issued in September 2013.

Income Taxes. Our effective tax rate for the 39 weeks ended November 1, 2014 was consistent with the prior year at 37.6%.

Liquidity and Capital Resources

Our business requires capital to open new stores, expand our distribution network and operate our existing business. Our working capital requirements for our existing business are seasonal in nature and typically reach their peak in the months of September and October. Historically, we have satisfied our seasonal working capital requirements, funded our store opening and infrastructure expansion programs and repurchased shares from internally generated funds and borrowings under our credit facility. In September 2013, we entered into a Note Purchase Agreement to finance $1.0 billion in share repurchase.

The following table compares cash flow information for the 39 weeks ended November 1, 2014 and November 2, 2013:

	39 Weeks Ended	
	November 1,	November 2,
(in millions)	2014	2013

Net cash provided by (used in):

Operating activities	$388.5	$366.7
Investing activities	(243.8)	(269.4)
Financing activities	(4.8)	(349.0)

Net cash provided by operating activities increased $21.8 million due primarily to an increase in accrued expenses

and income taxes payable partially offset by an increase in deferred financing costs, an increase in deferred tax assets and a decrease in accounts payable.

Net cash used in investing activities decreased $25.6 million primarily due to lower capital expenditures. Capital expenditures were higher in 2013 due to the construction of our new distribution center in Windsor, CT and the expansion of our distribution centers in San Bernardino, CA and Marietta, OK.

Net cash used in financing activities decreased $344.2 million compared with the prior year, primarily due to $1.1 billion of share repurchase in the prior year partially offset by the issuance of the $750.0 million of Senior Notes.

At November 1, 2014, our total borrowings were $757.0 million and we had $737.1 million available under our Unsecured Credit Agreement. We also have $260.0 million in Letter of Credit Reimbursement and Security Agreements with various financial institutions, under which approximately $150.9 million was committed to letters of credit issued for routine purchases of imported merchandise as of November 1, 2014.

On July 27, 2014, we executed an Agreement and Plan of Merger to acquire Family Dollar in a cash and stock transaction ("Merger"). We intend to finance the acquisition through a combination of cash on hand, bank debt and bonds. In connection with the transaction, we have received a financing commitment from JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, Bank of America, N.A., Royal Bank of Canada and U.S. Bank, National Association and others, with the bank debt syndication and bond offering expected to occur prior to closing.

On August 15, 2014, we entered into an amendment (the "Amendment") to our five-year $750.0 million Credit Agreement (the "Existing Credit Agreement") with Wells Fargo Bank, N.A, as administrative agent and the lenders party thereto. The Amendment amends the Existing Credit Agreement to facilitate the issuance and/or borrowings of certain third-party debt financing that we may use to finance our proposed acquisition of Family Dollar. The Amendment also facilitates escrow arrangements related to the acquisition.

On September 17, 2013, we entered into two $500.0 million variable maturity accelerated share repurchase agreements to repurchase $1.0 billion of the Company’s common shares in the aggregate. One agreement was collared and the other was uncollared.

The number of shares we received under the collared agreement was determined based on the weighted average market price of our common stock, less a discount, during a calculation period ending on or before June 2014, subject to a minimum and maximum number of shares. Under this agreement, we received 7.8 million shares during the year ended February 1, 2014. This represents the minimum number of shares to be received based on a calculation using the "cap" or high-end of the price range of the "collar". On May 15, 2014 the collared agreement concluded and we received an additional 1.2 million shares resulting in a total of 9.0 million shares repurchased under this agreement.

The number of shares we received under the uncollared agreement was determined based on the weighted average market price of our common stock, less a discount, during a calculation period ending on or before June 2014. We received an initial delivery of 7.2 million shares during the year ended February 1, 2014. On February 14, 2014 the uncollared agreement concluded and we received an additional 1.9 million shares resulting in a total of 9.1 million shares repurchased under this agreement.

There were no shares repurchased on the open market during the 39 weeks ended November 1, 2014. We repurchased 2.4 million shares of common stock on the open market for $112.1 million during the 39 weeks ended November 2, 2013. As of November 1, 2014, we had $1.0 billion remaining under Board repurchase authorization.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to various types of market risk in the normal course of our business, including the impact of interest rate changes and diesel fuel cost changes. We may enter into interest rate or diesel fuel swaps to manage exposure to interest rate and diesel fuel price changes. We do not enter into derivative instruments for any purpose other than cash flow hedging and we do not hold derivative instruments for trading purposes.

Diesel Fuel Cost Risk

In order to manage fluctuations in cash flows resulting from changes in diesel fuel costs, we entered into fuel derivative contracts with third parties. We have entered into fuel derivative contracts for 0.8 million gallons of diesel fuel, or

approximately 20% of our domestic truckload fuel needs from November 2014 through January 2015. We have also entered into fuel derivative contracts for 6.6 million gallons of diesel fuel, or approximately 40% of our domestic truckload fuel needs from February 2015 through January 2016. Under these contracts, we pay the third party a fixed price for diesel fuel and receive variable diesel fuel prices at amounts approximating current diesel fuel costs, thereby creating the economic equivalent of a fixed-rate obligation. These derivative contracts do not qualify for hedge accounting and therefore all changes in fair value for these derivatives are included in "Other expense, net" on the condensed consolidated income statements. The fair value of these contracts at November 1, 2014 was a liability of $1.1 million.

Item 4. CONTROLS AND PROCEDURES.

Our management has carried out, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act as of the end of the period covered by this report. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of November 1, 2014, the Company's disclosure controls and procedures were designed and functioning effectively to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

There have been no changes in our internal control over financial reporting during the quarter ended November 1, 2014 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.

From time to time, we are defendants in ordinary, routine litigation or proceedings incidental to our business, including allegations regarding:

•employment-related matters;

•infringement of intellectual property rights;

•personal injury/wrongful death claims;

•product safety matters, which may include product recalls in cooperation with the Consumer Products Safety Commission or other jurisdictions;

•real estate matters related to store leases; and

•environmental issues.

In addition, we are defendants in several class or collective action lawsuits, lease restriction cases, an environmental investigation and proposed merger related shareholder litigation. For a discussion of these proceedings, please refer to “Note 2. Litigation Matters”, included in “Part I. Financial Information, Item 1. Financial Statements” of this Form 10-Q.

We will vigorously defend ourselves in these matters. We do not believe that any of these matters will, individually or in the aggregate, have a material adverse effect on our business or financial condition. We cannot give assurance, however, that one or more of these lawsuits will not have a material adverse effect on our results of operations for the period in which they are resolved.

Item 1A. RISK FACTORS.

Due to the proposed Family Dollar merger, there have been material changes to the risk factors described in Item 1A. “Risk Factors” in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 14, 2014. For a complete discussion of the Company's risk factors you should carefully review the detailed discussions in the "Risk Factors" and "Business" section in the Company's Annual Report on Form 10-K filed March 14, 2014 and the following risk factors:

Completion of the proposed merger is subject to conditions and if these conditions are not satisfied or waived, the merger will not be completed. The merger agreement can also be terminated by Family Dollar under certain circumstances relating to a "company superior proposal" (as defined in our merger agreement with Family Dollar).

Our and Family Dollar’s obligations to complete the proposed merger are subject to satisfaction or waiver (to the extent permitted under applicable law) of a number of conditions, including adoption of the merger by the Family Dollar stockholders, expiration or termination of the applicable waiting periods under the HSR Act, approval of the listing on the Nasdaq of our common stock to be issued in the merger, the absence of an injunction prohibiting the merger, the accuracy of the representations and warranties of the other party under the merger agreement (subject to the materiality standards set forth in the merger agreement), the performance by the other party of its respective obligations under the merger agreement in all material respects, delivery of officer certificates by the other party certifying satisfaction of the two preceding conditions, and in the case of our obligation to complete the merger, the absence of a material adverse effect (as described in the merger agreement) on Family Dollar following July 27, 2014. The satisfaction of all of the required conditions could delay the completion of the proposed Family Dollar merger for a significant period of time or prevent it from occurring. Any delay in completing the proposed merger could cause us not to realize some or all of the benefits that we expect to achieve if the merger is successfully completed within its expected timeframe. Further, there can be no assurance that the conditions to the closing of the merger will be satisfied or waived or that the merger will be completed. See the risk factor entitled "Failure to complete the merger could negatively impact our stock price and future business and financial results," below.

Under certain circumstances, if a third party makes a "company superior proposal" (as defined in our merger agreement with Family Dollar) to acquire Family Dollar, Family Dollar could pay us a termination fee, terminate our Merger Agreement and sign a merger agreement with the third party, and the proposed Merger with Dollar Tree and Family Dollar would not be completed. Dollar General Corp. has made an unsolicited conditional tender offer to buy Family Dollar for $80.00 per common share in cash subject to due diligence, regulatory, and other conditions including entering into a merger agreement with Family Dollar and obtaining the support of Howard Levine and Trian Fund Management, L.P. The Merger Agreement outlines a specified process by which any such proposals are to be handled by Family Dollar. The Family Dollar Board of Directors after carefully reviewing and considering the Dollar General proposals, has recommended that its shareholders reject the Dollar General tender offer.

See the risk factor entitled "Failure to complete the merger could negatively impact our stock price and future business and financial results," below.

In order to complete the proposed merger, we and Family Dollar must make certain governmental filings and obtain certain governmental authorizations, and if such filings and authorizations are not made or granted or are granted with conditions, or if regulators otherwise seek to impose conditions or challenge the merger, completion of the merger may be jeopardized or the anticipated benefits of the proposed merger could be reduced.

Although we and Family Dollar have agreed in the merger agreement to use our reasonable best efforts, subject to certain limitations, to make certain governmental filings and obtain the required expiration or termination of the waiting period under the HSR Act, there can be no assurance that the waiting period under the HSR Act will expire or be terminated. As a condition to granting termination of the waiting period under the HSR Act or avoiding a lawsuit challenging the merger, governmental authorities may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of our business after completion of the merger. Under the terms of the merger agreement, subject to certain exceptions, we are required to accept certain conditions and take certain actions imposed by governmental authorities that would apply to, or affect, our businesses, assets or properties or of Family Dollar and its subsidiaries. There can be no assurance that regulators will not impose conditions, terms, obligations or restrictions

and that such conditions, terms, obligations or restrictions will not have the effect of delaying completion of the merger or imposing additional material costs on or materially limiting the revenues of the combined company following the merger, or otherwise adversely affecting our businesses and results of operations after completion of the proposed merger. In addition, we can provide no assurance that these conditions, terms, obligations or restrictions will not result in the delay or abandonment of the proposed merger. There also can be no assurance that regulators will not seek to challenge the merger.

Combining the two companies may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the proposed merger may not be realized.

We and Family Dollar have operated and, until the completion of the proposed merger, will continue to operate, independently. The success of the proposed merger, including anticipated benefits and cost savings, will depend, in part, on our ability to successfully combine and integrate the businesses of the Company and Family Dollar. It is possible that the pendency of the merger and/or the integration process could result in the loss of key employees, higher than expected costs, diversion of management attention of both the Company and Family Dollar, increased competition, the disruption of either company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with customers, vendors and employees or to achieve the anticipated benefits and cost savings of the proposed merger. In addition, we may experience difficulty integrating the Family Dollar brand into our operations, which may cause disruptions and uncertainty affecting our relationships with existing and future customers, vendors and employees. If we experience difficulties with the integration process, the anticipated benefits of the proposed merger may not be realized fully or at all, or may take longer to realize than expected. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on us during this transition period and for an undetermined period after completion of the merger on the combined company. In addition, the actual cost savings of the proposed merger could be less than anticipated.

Failure to complete the proposed merger could negatively impact our stock price and our future business and financial results.

If the proposed Family Dollar merger is not completed for any reason, we would be subject to a number of risks, including the following:

- We will incur substantial expenses and costs related to the proposed merger, whether or not it is consummated, including legal, accounting and advisory fees;
- Matters relating to the proposed merger (including integration planning) will require substantial commitments of time and resources by our management, which would otherwise have been devoted to day-to-day operations and other potentially advantageous business opportunities or plans that may have been beneficial to us, without realizing any of the expected benefits of the proposed merger; and
- Failure to consummate the proposed merger may result in negative reactions from the financial markets or from our customers, vendors and employees.

If the proposed merger is not completed, these risks may materialize and could have a material adverse effect on our stock price, business and cash flows, financial condition and results of operations.

In connection with the proposed merger, we will incur significant additional indebtedness and may also assume certain of Family Dollar's outstanding indebtedness, which could adversely affect us, including by decreasing our business flexibility, and will increase our interest expense.

Our consolidated indebtedness as of November 1, 2014 was $757 million. Our pro forma indebtedness as of November 1, 2014, after giving effect to the proposed merger and the anticipated incurrence and extinguishment of indebtedness in connection therewith, will be approximately $8,747 million. We will have substantially increased indebtedness following completion of the proposed merger in comparison to our indebtedness on a recent historical basis, which could have the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions and increasing our interest expense. We will also incur various costs and expenses associated with the financing. The amount of cash required to pay interest on our increased indebtedness levels following completion of the proposed merger and thus the demands on our cash resources will be greater than the amount of cash flows required to service our indebtedness prior to the proposed merger. Our increased levels of indebtedness following completion of the proposed merger could also reduce funds available for working capital, capital expenditures, acquisitions and other general corporate purposes and may create competitive disadvantages for us relative to other companies with lower debt levels. If we do not achieve the expected benefits and cost savings from the proposed merger, or if the financial performance of the combined company does not meet current expectations, then our ability to service our indebtedness may be adversely impacted.

Certain of the indebtedness to be incurred in connection with the proposed merger will bear interest at variable interest rates. If interest rates increase, variable rate debt will create higher debt service requirements, which could adversely affect our cash flows.

In addition, our credit ratings impact the cost and availability of future borrowings and, accordingly, our cost of capital. Our ratings reflect each rating organization's opinion of our financial strength, operating performance and ability to meet our debt obligations. In connection with the debt financing, we are pursuing ratings of our indebtedness from S&P and Moody's. There can be no assurance that we will achieve a particular rating or maintain a particular rating in the future.

Moreover, we may be required to raise substantial additional financing to fund working capital, capital expenditures, acquisitions or other general corporate requirements. Our ability to arrange additional financing will depend on, among other factors, our financial position and performance, as well as prevailing market conditions and other factors beyond our control. We cannot assure you that we will be able to obtain additional financing on terms acceptable to us or at all.

The agreements that will govern the indebtedness to be incurred or assumed in connection with the proposed merger are expected to contain various covenants that impose restrictions on us that may affect our ability to operate our businesses.

The agreements that will govern the indebtedness to be incurred or assumed in connection with the proposed merger are expected to contain various affirmative and negative covenants that may, subject to certain significant exceptions, restrict our ability to, among other things, have liens on our property, incur additional indebtedness, enter into sale and lease-back transactions, make loans, advances or other investments, make non-ordinary course asset sales, declare or pay dividends or make other distributions with respect to equity interests, and/or merge or consolidate with any other person or sell or convey certain of our assets to any one person, among other things. In addition, some of the agreements that govern the debt financing are expected to contain financial covenants that will require us to maintain certain financial ratios. Our ability to comply with these provisions may be affected by events beyond our control. Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could accelerate our repayment obligations.

The proposed merger may not be accretive, and may be dilutive, to our earnings per share, which may negatively affect the market price of our common stock.

Because shares of our common stock would be issued in the proposed merger, it is possible that the merger will be dilutive to our earnings per share, which could negatively affect the market price of shares of our common stock.

In connection with the completion of the proposed merger, based on the number of issued and outstanding shares of our common stock and Family Dollar common stock as of October 23, 2014, we would issue between 28,373,683 and 34,678,976 shares of our common stock. The issuance of these new shares of our common stock could have the effect of depressing the market price of shares of our common stock, through dilution of earnings per share or otherwise.

In addition, future events and conditions could increase the dilution that is currently projected, including adverse changes in market conditions, additional transaction and integration related costs and other factors such as the failure to realize some or all of the benefits anticipated in the merger. Any dilution of, or delay of any accretion to, our earnings per share could cause the price of shares of our common stock to decline or grow at a reduced rate.

Sales of shares of our common stock before and after the completion of the proposed Family Dollar merger may cause the market price of our common stock to fall.

Based on the number of outstanding shares of our common stock and Family Dollar common stock as of October 23, 2014, we would issue between 28,373,683 and 34,678,976 shares of our common stock in connection with the proposed Family Dollar merger. The issuance of these new shares of our common stock could have the effect of depressing the market price for our common stock.

In addition, many Family Dollar stockholders may decide not to hold the shares of our common stock they will receive in the proposed merger. Other Family Dollar stockholders, such as funds with limitations on their permitted holdings of stock in individual issuers, may be required to sell the shares of our common stock that they receive in the proposed merger. Such sales of our common stock could have the effect of depressing the market price for our common stock and may take place promptly following the proposed merger.

We will incur significant transaction and merger-related costs in connection with the proposed merger.

We expect to incur a number of non-recurring costs associated with the proposed Family Dollar merger and combining the operations of the two companies. The substantial majority of non-recurring expenses will be comprised of transaction and regulatory costs related to the merger.

We and Family Dollar have agreed in the merger agreement to use our respective reasonable best efforts, subject to certain limitations, to make certain governmental filings and obtain the required expiration or termination of the waiting period under the HSR Act. See the risk factor entitled "In order to complete the proposed merger, we and

Family Dollar must make certain governmental filings and obtain certain governmental authorizations, and if such filings and authorizations are not made or granted or are granted with conditions, completion of the merger may be jeopardized or the anticipated benefits of the merger could be reduced" above.

We also will incur transaction fees and costs related to formulating and implementing integration plans, including facilities and systems consolidation costs and employment-related costs. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the proposed merger and the integration of the two companies' businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to offset integration-related costs over time, this net benefit may not be achieved

in the near term, or at all. See the risk factor entitled "Combining the two companies may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the merger may not be realized" above. Several lawsuits have been filed against us, one of our subsidiaries, Family Dollar and its directors challenging the proposed merger, and an adverse ruling in such lawsuits may prevent the proposed merger from becoming effective or from becoming effective within the expected timeframe.

We, one of our subsidiaries, Family Dollar and its directors are named as defendants in several putative class action lawsuits brought by purported Family Dollar stockholders challenging the proposed merger, seeking, among other things, to enjoin consummation of the proposed merger. One of the conditions to the completion of the proposed merger is that no injunction by any court or other tribunal of competent jurisdiction will be in effect that prohibits or makes illegal the consummation of the proposed merger. As such, if any of the plaintiffs are successful in obtaining an injunction prohibiting the consummation of the proposed merger, then such injunction may prevent the proposed merger from becoming effective or from becoming effective within the expected timeframe.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table presents our share repurchase activity for the 13 weeks ended November 1, 2014:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions)
August 3, 2014 to August 30, 2014	—	$—	—	$1,000.0
August 31, 2014 to October 4, 2014	—	—	—	1,000.0
October 5, 2014 to November 1, 2014	—	—	—	1,000.0
Total	—	$—	—	$1,000.0

On September 17, 2013, we entered into agreements and made payments to repurchase $1.0 billion of our common shares under two $500.0 million Accelerated Share Repurchase Agreements (ASRs). On February 14, 2014 the uncollared agreement concluded and we received an additional 1.9 million shares resulting in a total of 9.1 million shares repurchased under the uncollared agreement. On May 15, 2014 the collared agreement concluded and we received an additional 1.2 million shares, without any additional cash payments, resulting in a total of 9.0 million shares repurchased under this agreement. See additional discussion of the ASRs in "Note 7. Shareholders' Equity", included in “Part I. Financial Information, Item 1. Financial Statements” of this Form 10-Q.

As of November 1, 2014, we had $1.0 billion remaining under Board repurchase authorization.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

Item 4. MINE SAFETY DISCLOSURES.

None.

Item 5. OTHER INFORMATION.

None.

Item 6. EXHIBITS.

2.1	Agreement and Plan of Merger, dated as of July 27, 2014 among Family Dollar Stores, Inc., Dollar Tree, Inc. and Dime Merger Sub, Inc. (Exhibit 2.1 to the Company's July 27, 2014 Current Report on Form 8-K, incorporated herein by this reference)
2.2	Amendment No. 1, dated September 4, 2014, to the Agreement and Plan of Merger, dated as of July 27, 2014 among Family Dollar Stores, Inc., Dollar Tree, Inc. and Dime Merger Sub, Inc. (Exhibit 2.1 to the Company's September 4, 2014 Current Report on Form 8-K, incorporated herein by this reference)
3.1	Articles of Incorporation of Dollar Tree, Inc. (as amended, effective June 20, 2013) (Exhibit 3.1 to the Company's June 20, 2013 Current Report on Form 8-K, incorporated herein by this reference)
3.2	Bylaws of Dollar Tree, Inc., as amended (Exhibit 3.1 to the Company's June 17, 2010 Current Report on Form 8-K, incorporated herein by this reference)
4.1	Form of Common Stock Certificate (Exhibit 4.1 to the Company's March 13, 2008 Current Report on Form 8-K, incorporated herein by this reference)
10.1	Second Amendment to Credit Agreement, dated as of August 15, 2014, among Dollar Tree Stores, Inc., as borrower, Dollar Tree, Inc., certain subsidiaries of Dollar Tree, Inc. party thereto, as guarantors, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto. (Exhibit 10.1 to the Company's August 15, 2014 Current Report on Form 8-K incorporated herein by this reference)
31.1	Certification required under Section 302 of the Sarbanes-Oxley Act of Chief Executive Officer
31.2	Certification required under Section 302 of the Sarbanes-Oxley Act of Chief Financial Officer
32.1	Certification required under Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer
32.2	Certification required under Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

DOLLAR TREE, INC.

DATE: November 20, 2014

By: /s/ Kevin S. Wampler
Kevin S. Wampler
Chief Financial Officer
(principal financial and accounting officer)