

DOLLAR TREE INC
Form 10-Q
August 22, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)

Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the quarterly period ended August 3, 2013

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
(State or other jurisdiction of
incorporation or organization)

26-2018846
(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

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

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

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 August 16, 2013, there were 223,007,477 shares of the Registrant's Common Stock outstanding.

DOLLAR TREE, INC.
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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

DOLLAR TREE, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

| (in millions, except per share data) | 13 Weeks Ended | | 26 Weeks Ended | | |
|--|-------------------|------------------|-------------------|------------------|---|
| | August 3, 2013 | July 28, 2012 | August 3, 2013 | July 28, 2012 | |
| Net sales | \$1,854.9 | \$1,704.6 | \$3,720.7 | \$3,428.2 | |
| Cost of sales | 1,206.2 | 1,105.0 | 2,416.0 | 2,225.9 | |
| Gross profit | 648.7 | 599.6 | 1,304.7 | 1,202.3 | |
| Selling, general and administrative expenses | 447.4 | 415.2 | 886.9 | 829.9 | |
| Operating income | 201.3 | 184.4 | 417.8 | 372.4 | |
| Interest expense, net | 0.7 | 1.1 | 1.3 | 1.6 | |
| Other (income) expense, net | (0.2 |) — | 0.2 | (1.1 |) |
| Income before income taxes | 200.8 | 183.3 | 416.3 | 371.9 | |
| Provision for income taxes | 76.1 | 64.1 | 158.1 | 136.6 | |
| Net income | \$124.7 | \$119.2 | \$258.2 | \$235.3 | |
| Basic net income per share | \$0.56 | \$0.52 | \$1.15 | \$1.02 | |
| Diluted net income per share | \$0.56 | \$0.51 | \$1.15 | \$1.01 | |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

DOLLAR TREE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

| (in millions) | 13 Weeks Ended | | 26 Weeks Ended | |
|--|-------------------|------------------|-------------------|------------------|
| | August 3, 2013 | July 28, 2012 | August 3, 2013 | July 28, 2012 |
| Net income | \$124.7 | \$119.2 | \$258.2 | \$235.3 |
| Foreign currency translation adjustments | (4.6 |) (5.0 |) (6.3 |) (2.5 |
| Total comprehensive income | \$120.1 | \$114.2 | \$251.9 | \$232.8 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| (in millions) | August 3, 2013 | February 2, 2013 | July 28, 2012 |
|---|-------------------|---------------------|------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$413.7 | \$399.9 | \$379.8 |
| Merchandise inventories, net | 1,018.3 | 971.7 | 891.7 |
| Current deferred tax assets, net | 16.7 | 22.5 | 18.7 |
| Other current assets | 84.5 | 79.4 | 31.4 |
| Total current assets | 1,533.2 | 1,473.5 | 1,321.6 |
| Property, plant and equipment, net | 1,066.5 | 960.7 | 879.8 |
| Goodwill | 171.7 | 173.3 | 173.1 |
| Deferred tax assets, net | 35.4 | 28.3 | 23.8 |
| Other assets, net | 101.5 | 116.2 | 101.4 |
| TOTAL ASSETS | \$2,908.3 | \$2,752.0 | \$2,499.7 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Current portion of long-term debt | \$12.8 | \$14.3 | \$14.3 |
| Accounts payable | 418.8 | 346.5 | 352.4 |
| Other current liabilities | 221.8 | 235.8 | 192.3 |
| Income taxes payable | 18.4 | 79.6 | 21.8 |
| Total current liabilities | 671.8 | 676.2 | 580.8 |
| Long-term debt, excluding current portion | 257.0 | 257.0 | 250.0 |
| Income taxes payable, long-term | 5.6 | 5.6 | 4.2 |
| Other liabilities | 148.0 | 145.9 | 141.7 |
| Total liabilities | 1,082.4 | 1,084.7 | 976.7 |
| Commitments and contingencies | | | |
| Shareholders' equity | 1,825.9 | 1,667.3 | 1,523.0 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$2,908.3 | \$2,752.0 | \$2,499.7 |
| Common shares outstanding | 223.0 | 224.6 | 230.4 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| (in millions) | 26 Weeks Ended | |
|---|-------------------|------------------|
| | August 3, 2013 | July 28, 2012 |
| Cash flows from operating activities: | | |
| Net income | \$ 258.2 | \$ 235.3 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 91.7 | 84.8 |
| Other non-cash adjustments to net income | 23.2 | 24.0 |
| Changes in operating assets and liabilities | (72.8) | (64.3) |
| Net cash provided by operating activities | 300.3 | 279.8 |
| Cash flows from investing activities: | | |
| Capital expenditures | (199.6) | (140.1) |
| Proceeds from sale of restricted investments | 15.0 | — |
| Other | (0.3) | (0.3) |
| Net cash used in investing activities | (184.9) | (140.4) |
| Cash flows from financing activities: | | |
| Principal payments under long-term debt | (1.5) | (1.2) |
| Payments for share repurchases | (112.1) | (76.5) |
| Proceeds from stock issued pursuant to stock-based compensation plans | 3.5 | 7.3 |
| Tax benefit of exercises/vesting of stock-based compensation | 9.6 | 24.3 |
| Other | — | (0.2) |
| Net cash used in financing activities | (100.5) | (46.3) |
| Effect of exchange rate changes on cash and cash equivalents | (1.1) | (1.6) |
| Net increase in cash and cash equivalents | 13.8 | 91.5 |
| Cash and cash equivalents at beginning of period | 399.9 | 288.3 |
| Cash and cash equivalents at end of period | \$ 413.7 | \$ 379.8 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for: | | |
| Interest | \$ 1.9 | \$ 1.3 |
| Income taxes | \$ 211.4 | \$ 160.4 |

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 2, 2013 contained in the Company's Annual Report on Form 10-K filed March 15, 2013. The results of operations for the 13 and 26 weeks ended August 3, 2013 are not necessarily indicative of the results to be expected for the entire fiscal year ending February 1, 2014.

In the Company's opinion, the unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of those of a normal recurring nature) considered necessary for a fair presentation of its financial position as of August 3, 2013 and July 28, 2012 and the results of its operations and cash flows for the periods presented. The February 2, 2013 balance sheet information was derived from the audited consolidated financial statements as of that date.

2. LITIGATION MATTERS

In 2006, a former store manager filed a collective action against the Company in Alabama federal court claiming that she and other store managers should have been classified as non-exempt employees under the Fair Labor Standards Act and received overtime compensation. The Court preliminarily allowed nationwide (except California) certification, however granted the Company's motion to decertify on November 2, 2012. The individual claims of the four named plaintiffs proceeded to trial and on March 1, 2013, the jury returned verdicts in all four cases in favor of the Company. The individual claims of the remaining 261 opt-in plaintiffs were dismissed without prejudice and approximately 61 of these plaintiffs filed individual suits in various federal courts throughout the country. Plaintiffs appealed the decertification Order and the jury verdicts to the U.S. Court of Appeals for the 11th Circuit. Thereafter the appeal was dismissed and all of the cases of the individual plaintiffs were resolved for immaterial amounts which are included in the accompanying condensed consolidated financial statements.

In April 2011, a former assistant store manager, on behalf of himself and those similarly situated, instituted a class action in a California state court primarily alleging a failure by the Company to provide meal breaks, to compensate for all hours worked, and to pay overtime compensation. The Company removed the case to federal court which denied plaintiffs' motion for remand of the case to state court. Discovery is ongoing. No trial date has been set.

In June 2011, Winn-Dixie Stores, Inc. and various of its affiliates instituted suit in federal court in Florida alleging that the Company, in approximately 48 shopping centers in the state of Florida and five other states where Dollar Tree and Winn-Dixie are both tenants, was selling goods and products in Dollar Tree stores in violation of an exclusive right of Winn-Dixie to sell and distribute such items. It sought both monetary damages and injunctive relief. At approximately the same time, Winn-Dixie also sued Dollar General, Inc. and Big Lots, Inc. making essentially the same allegations against them and seeking the same relief. The Court consolidated the three cases and they proceeded to trial, without a jury, in May of 2012. On August 10, 2012, the Court issued its Findings of Fact and Conclusions of Law. The ruling denied Winn-Dixie's claim for monetary damages, either compensatory or punitive, and, of the original 48 Dollar Tree stores at issue, granted plaintiff's request for injunctive relief with respect to just one store. A final Order incorporating these findings and conclusions was entered and Winn-Dixie has appealed to the U.S. Court

of Appeals for the 11th Circuit.

In the summer of 2011, a collective action lawsuit was filed against the Company in federal court in Illinois by an assistant store manager and other hourly associate, each alleging she was forced to work off the clock in violation of the federal Fair Labor Standards Act (FLSA). The case was transferred to the Eastern District of Virginia in June 2012 and the Virginia federal judge ruled that all claims made on behalf of assistant store managers under both the FLSA and state law should be dismissed. The court, however, did conditionally certify under the FLSA a class of all hourly sales associates who worked for Dollar Tree from October 2, 2009 to the present. Notice to the putative class was issued and approximately 6,280 plaintiffs opted into the case. Phase I certification discovery is complete and certification briefing begins in September 2013. No trial date has been set. Four other FLSA collective action lawsuits were filed against

the Company in federal courts in Georgia, Colorado, Florida and Michigan alleging essentially the same claims. These cases have been resolved, pending court approval, for immaterial amounts which are included in the accompanying condensed consolidated financial statements.

In July 2012, a former assistant store manager, on behalf of himself and those similarly situated, filed a class action Complaint in a California state court, alleging the Company failed to provide paid, duty-free 10 minute rest breaks to assistant store managers who worked for periods in excess of three and one-half hours. The alleged relevant time period is July 13, 2008 to the present. The Company removed the case to federal court, however, it was remanded to state court when plaintiff indicated the damages sought were less than \$5.0 million, the jurisdictional amount under the federal Class Action Fairness Act. No trial date has been set.

In August 2012, two former store managers, under California's Private Attorney General Act (PAGA), instituted suit in a California state court, on behalf of themselves and others similarly aggrieved in the state of California, alleging they were misclassified by the Company as exempt employees. The Company removed the case to federal court. Discovery is complete and the Company's Motions for Summary Judgment and to Dismiss under PAGA have been filed but not ruled upon. The case is scheduled for trial in November 2013.

In February 2013, a former assistant store manager on behalf of himself and those similarly aggrieved filed a representative claim under California's Private Attorney General Act, alleging the Company failed to provide meal and rest periods; 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. The Company removed the case from a California state court to federal court. Discovery has commenced and no trial date has been set.

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 those matters which are not settled and cannot estimate a potential range of loss.

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 August 3, 2013. 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 and restricted investments was \$413.7 million and \$79.6 million, respectively, at August 3, 2013. These fair values were determined using Level 1 measurements in the fair value hierarchy. The fair value of the diesel fuel swaps as of August 3, 2013 was an asset of \$0.4 million 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 carrying values of the Company's Unsecured Credit Agreement and Demand Revenue Bonds approximate their fair values because their 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 (e.g., when there is evidence of impairment). There were no changes in fair value related to these assets during the 13 or 26 weeks ended August 3, 2013.

4. NET INCOME PER SHARE

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

| (in millions, except per share data) | 13 Weeks Ended | | 26 Weeks Ended | |
|---|-------------------|------------------|-------------------|------------------|
| | August 3, 2013 | July 28, 2012 | August 3, 2013 | July 28, 2012 |
| Basic net income per share: | | | | |
| Net income | \$124.7 | \$119.2 | \$258.2 | \$235.3 |
| Weighted average number of shares outstanding | 223.4 | 231.3 | 223.8 | 231.4 |
| Basic net income per share | \$0.56 | \$0.52 | \$1.15 | \$1.02 |
| Diluted net income per share: | | | | |
| Net income | \$124.7 | \$119.2 | 258.2 | 235.3 |
| Weighted average number of shares outstanding | 223.4 | 231.3 | 223.8 | 231.4 |
| Dilutive effect of stock options and restricted stock (as determined by applying the treasury stock method) | 0.9 | 1.3 | 1.0 | 1.3 |
| Weighted average number of shares and dilutive potential shares outstanding | 224.3 | 232.6 | 224.8 | 232.7 |
| Diluted net income per share | \$0.56 | \$0.51 | \$1.15 | \$1.01 |

For the 13 and 26 weeks ended August 3, 2013 and July 28, 2012, 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 \$7.2 million and \$22.8 million during the 13 and 26 weeks ended August 3, 2013, respectively. Stock based compensation expense was \$7.2 million and \$21.1 million during the 13 and 26 weeks ended July 28, 2012, respectively.

The Company granted approximately 0.5 million service-based RSUs from the Omnibus Incentive Plan (Omnibus Plan) to employees and officers in the 26 weeks ended August 3, 2013. The estimated \$24.8 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 \$2.3 million and \$6.1 million of expense related to these RSUs during the 13 and 26 weeks ended August 3, 2013.

In the 26 weeks ended August 3, 2013 the Company granted 0.2 million RSUs with a fair value of \$9.6 million from the Omnibus Plan to certain officers of the Company, contingent on the Company meeting certain performance targets in fiscal 2013. If the Company meets these performance targets in fiscal 2013, the RSUs will vest ratably over three years, ending March 22, 2016. 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 \$5.6 million of expense related to these RSUs in the 13 and 26 weeks ended August 3, 2013.

In the 26 weeks ended August 3, 2013 the Company granted RSUs with a fair value of \$1.6 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 3, 2013 and ending on January 30, 2016. 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 periods, or a shorter period based on the retirement eligibility of certain grantees. The Company recognized \$0.1 million and \$0.7 million of expense related to these RSUs in the 13 and 26 weeks ended August 3, 2013.

The Company recognized \$4.2 million and \$9.7 million of expense, respectively, related to RSUs granted prior to fiscal 2013 in the 13 and 26 weeks ended August 3, 2013. For the 13 and 26 weeks ended July 28, 2012, the Company recognized \$4.1 million and \$9.0 million of expense related to these RSUs.

In the 26 weeks ended August 3, 2013, approximately 1.0 million RSUs vested and approximately 0.6 million shares, net of taxes, were issued. During the 26 weeks ended July 28, 2012, approximately 1.3 million RSUs vested and approximately 0.8 million shares, net of taxes, were issued. Less than 0.1 million RSUs vested in the 13 weeks ended August 3, 2013 and July 28, 2012.

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 1.4 million gallons of diesel fuel, or approximately 20% of the Company's domestic truckload fuel needs from August 2013 through January 2014. 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 (income) expense, net" on the accompanying condensed consolidated income statements. The fair value of these contracts at August 3, 2013 was an asset of \$0.4 million.

7. SHAREHOLDERS' EQUITY

Share Repurchase Program

The Company repurchased approximately 0.9 million shares and 2.4 million shares of common stock on the open market for approximately \$43.7 million and \$112.1 million during the 13 and 26 weeks ended August 3, 2013, respectively. As of August 3, 2013, the Company has \$747.7 million remaining under Board repurchase authorization.

Share Authorization

On June 20, 2013, the shareholders approved an amendment to the Company's Articles of Incorporation to increase the authorized shares of the Company's common stock from four hundred million to six hundred million shares.

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:

- 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;

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

the effect of the continued shift in merchandise mix to include more consumables and the continued roll-out of frozen and refrigerated merchandise on gross profit margin and sales;

the possible effect of the current economic downturn, inflation and other economic changes on our costs and profitability, including future changes in domestic and foreign freight costs, shipping rates, fuel costs and wage and benefit costs;

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our cash needs, including our ability to fund our future capital expenditures and working capital requirements; and, the future reliability of, and cost associated with, our sources of supply, particularly imported goods such as those sourced from China.

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 15, 2013. Also see section 1A. "Risk Factors" in Part II of this Quarterly Report on Form 10-Q.

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.

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.

A significant disruption in or security breach in our computer systems could adversely affect our operations or our ability to secure customer, employee and company data.

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

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

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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 August 3, 2013, we operated 4,682 stores in 48 states and the District of Columbia, as well as 160 stores in Canada, with a total of 41.9 million selling square feet compared to 4,523 stores with 39.2 million selling square feet at July 28, 2012. During the 26 weeks ended August 3, 2013, we opened 175 stores, expanded 48 stores and closed 4 stores, compared to 187 stores opened, 65 stores expanded and 15 stores closed during the 26 weeks ended July 28, 2012. In the 26 weeks ended August 3, 2013 and July 28, 2012, we added approximately 1.5 million and 1.7 million selling square feet, respectively. The average size of stores opened during the 26 weeks ended August 3, 2013 was approximately 8,000 selling square feet. We believe that this size store is in the range of our optimal size operationally and that this size also 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 26 weeks ended August 3, 2013, comparable store net sales increased 3.7% and 2.8% due to increased customer traffic and 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 26 weeks ended August 3, 2013, and we continued the roll-out of frozen and refrigerated merchandise to more of our stores. At August 3, 2013, we had frozen and refrigerated merchandise in approximately 2,990 stores compared to approximately 2,400 stores at July 28, 2012. 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 4,430 qualified stores compared to approximately 4,060 stores at July 28, 2012.

Results of Operations

13 Weeks Ended August 3, 2013 Compared to the 13 Weeks Ended July 28, 2012

Net Sales. Net sales increased 8.8%, or \$150.3 million, compared with last year's second quarter resulting from sales in our new stores and a 3.7% increase in comparable store net sales. 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 35.0% in the current quarter compared to 35.2% in the same quarter last year. Higher distribution and shrink costs were partially offset by improvement in initial merchandise mark-up in many categories.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the current quarter decreased to 24.1%, as a percentage of net sales, compared to 24.4% for the same period last year. This net decrease was primarily due to the following:

- Operating and corporate expenses decreased due to lower inventory service fees and insurance expenses partially offset by increased legal fees.

- Payroll expenses decreased due to leverage associated with the comparable store sales increase partially offset by higher workers' compensation and health care costs.

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Operating Income. Operating income for the current quarter was 10.9% as a percentage of net sales compared to 10.8% for the same period last year. This increase is the result of lower selling, general and administrative expenses partially offset by lower gross profit margin, as a percentage of net sales, as noted above.

Income Taxes. Our effective tax rate for the 13 weeks ended August 3, 2013 was 37.9% compared to 35.0% for the 13 weeks ended July 28, 2012. This increase is the result of statute expirations and the settlement of state tax audits in the same period last year.

26 Weeks Ended August 3, 2013 Compared to the 26 Weeks Ended July 28, 2012

Net Sales. Net sales increased 8.5%, or \$292.5 million, over the same period last year resulting from sales in our new stores and a 2.8% increase in comparable store net sales. 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 for the 26 weeks ended August 3, 2013 remained at 35.1%, as a percentage of sales, compared to the same period last year. Improved initial merchandise mark-up was offset by higher shrink costs.

Selling, General and Administrative Expenses. Selling, general, and administrative expenses for the 26 weeks ended August 3, 2013 decreased to 23.8%, as a percentage of net sales, compared to 24.2% for the same period last year. This net decrease was primarily due to the following:

• Payroll expenses, store operating costs and depreciation expenses decreased as a percentage of sales due to the leverage associated with the comparable store sales increase.

• Operating and corporate expenses also decreased due to lower inventory service fees partially offset by increased legal fees.

Operating Income. Operating income for the 26 weeks ended August 3, 2013 was 11.2% as a percentage of net sales compared to 10.9% for the same period last year. This increase is the result of lower selling, general and administrative expenses, as a percentage of net sales, as noted above.

Income Taxes. Our effective tax rate for the 26 weeks ended August 3, 2013 was 38.0% compared to 36.7% for the 26 weeks ended July 28, 2012. This increase is the result of statute expirations and the settlement of state tax audits in the same period last year.

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.

The following table compares cash flow information for the 26 weeks ended August 3, 2013 and July 28, 2012:

| (in millions) | 26 Weeks Ended August 3, 2013 | July 28, 2012 |
|---------------------------------|-------------------------------------|------------------|
| Net cash provided by (used in): | | |
| Operating activities | \$300.3 | \$279.8 |
| Investing activities | (184.9 |) (140.4 |
| Financing activities | (100.5 |) (46.3 |

Net cash provided by operating activities increased \$20.5 million due primarily to increased earnings before depreciation and amortization, an increase in accounts payable and a lower decrease in accrued expenses partially

offset by an increase in cash used for inventory and lower income taxes payable.

Net cash used in investing activities increased \$44.5 million due to increased capital expenditures offset slightly by a reduction in restricted cash requirements. Capital expenditures increased due to the construction of our new distribution center in Windsor, CT and the expansion of our distribution centers in Marietta, OK and San Bernardino, CA.

Net cash used in financing activities increased \$54.2 million compared with the prior year, primarily due to increased share repurchases in the current year and lower tax benefits related to equity compensation.

At August 3, 2013, our total borrowings were \$269.8 million and we had \$487.1 million available under our Unsecured Credit Agreement. We also have \$250.0 million in Letter of Credit Reimbursement and Security Agreements with various financial institutions, under which approximately \$201.3 million was committed to letters of credit issued for routine purchases of imported merchandise as of August 3, 2013.

We repurchased 2.4 million and 1.7 million shares of common stock for \$112.1 million and \$85.5 million during the 26 weeks ended August 3, 2013 and July 28, 2012, respectively. As of August 3, 2013, we had \$747.7 million 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 1.4 million gallons of diesel fuel, or approximately 20% of our domestic truckload fuel needs from August 2013 through January 2014. 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 (income) expense, net" on the condensed consolidated income statements. The fair value of these contracts at August 3, 2013 was an asset of \$0.4 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 August 3, 2013, 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 August 3, 2013 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; and

- real estate matters related to store leases.

In addition, we are defendants in several class or collective action lawsuits. For a discussion of these lawsuits, 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.

There have been no 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 15, 2013.

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

The following table presents our share repurchase activity for the 13 weeks ended August 3, 2013:

| 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) |
|--------------------------------|----------------------------------|------------------------------|--|--|
| May 5, 2013 to June 1, 2013 | 100,000 | \$49.12 | 100,000 | \$786.4 |
| June 2, 2013 to July 6, 2013 | 785,583 | 49.36 | 785,583 | 747.7 |
| July 7, 2013 to August 3, 2013 | — | — | — | 747.7 |
| Total | 885,583 | \$49.33 | 885,583 | \$747.7 |

As of August 3, 2013, we had approximately \$747.7 million 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.

- 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 Form of Change in Control Retention Agreement between the Company and Mike R. Matacunas, Chief Administrative Officer (filed herewith)*
- 10.2 Form of Change in Control Retention Agreement between the Company and William A. Old, Jr, Chief Legal Officer and Corporate Secretary (filed herewith)*
- 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
- * Management contract or compensatory plan or arrangement

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: August 22, 2013

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