

DOLLAR TREE INC  
Form 10-Q  
November 18, 2010

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 October 30, 2010

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 (I.R.S.  
jurisdiction of Employer  
incorporation Identification  
or No.)  
organization)

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

Smaller reporting company

Non  
accelerated  
filer ( )

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 11, 2010, there were 125,220,987 shares of the Registrant's Common Stock outstanding.

---

DOLLAR TREE, INC.  
AND SUBSIDIARIES

INDEX

PART I-FINANCIAL INFORMATION

	Page
Item 1. Financial Statements:	
<u>Unaudited Condensed Consolidated Income Statements for the 13 and 39 weeks Ended October 30, 2010 and October 31, 2009</u>	3
<u>Unaudited Condensed Consolidated Balance Sheets as of October 30, 2010, January 30, 2010 and October 31, 2009</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the 39 Weeks Ended October 30, 2010 and October 31, 2009</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
Item 4. <u>Controls and Procedures</u>	17

PART II-OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	17
Item 1A. <u>Risk Factors</u>	17

Item 2. <u>Unregistered Sales of Equity</u> <u>Securities and Use of Proceeds</u>	18
Item 3. <u>Defaults Upon Senior Securities</u>	18
Item 4. <u>Removed and Reserved</u>	18
Item 5. <u>Other Information</u>	18
Item 6. <u>Exhibits</u>	18
<u>Signatures</u>	20

## Part I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS.

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

	13 Weeks Ended		39 Weeks Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
(In millions, except per share data)				
Net sales	\$ 1,426.6	\$ 1,248.7	\$ 4,157.1	\$ 3,672.6
Cost of sales, excluding non-cash beginning inventory adjustment	920.6	807.5	2,691.1	2,394.2
Non-cash beginning inventory adjustment	-	-	26.3	-
Gross profit	506.0	441.2	1,439.7	1,278.4
Selling, general and administrative expenses	365.1	333.6	1,068.4	984.0
Operating income	140.9	107.6	371.3	294.4
Interest expense, net	1.6	1.6	4.6	3.9
Other income, net	(5.4 )	-	(5.1 )	(0.2 )
Income before income taxes	144.7	106.0	371.8	290.7
Provision for income taxes	51.5	37.8	137.0	105.2
Net income	\$ 93.2	\$ 68.2	\$ 234.8	\$ 185.5
Net income per share:				

Edgar Filing: DOLLAR TREE INC - Form 10-Q

Basic	\$ 0.73	\$ 0.51	\$ 1.84	\$ 1.38
Diluted	\$ 0.73	\$ 0.51	\$ 1.82	\$ 1.37

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

[Back to Index](#)

3

---

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

(In millions)	October 30, 2010	January 30, 2010	October 31, 2009
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 309.5	\$ 571.6	\$ 342.1
Short-term investments	82.5	27.8	-
Merchandise inventories	934.9	679.8	846.2
Other current assets	39.5	26.4	32.4
<b>Total current assets</b>	<b>1,366.4</b>	<b>1,305.6</b>	<b>1,220.7</b>
Property, plant and equipment, net	741.4	714.3	705.1
Goodwill	133.3	133.3	133.3
Deferred tax assets	40.0	35.0	34.4
Other assets, net	81.0	101.5	87.0
<b>Total Assets</b>	<b>\$ 2,362.1</b>	<b>\$ 2,289.7</b>	<b>\$ 2,180.5</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Current portion of long-term debt	\$ 16.5	\$ 17.5	\$ 17.5
Accounts payable	303.2	219.9	261.4
Other current liabilities	227.3	189.9	178.2
Income taxes payable	19.5	48.6	11.5
<b>Total current liabilities</b>	<b>566.5</b>	<b>475.9</b>	<b>468.6</b>
Long-term debt, excluding current portion	250.0	250.0	250.0
Income taxes payable, excluding current portion	14.8	14.4	15.4
Other liabilities	118.6	120.2	121.6
<b>Total liabilities</b>	<b>949.9</b>	<b>860.5</b>	<b>855.6</b>
Commitments and contingencies			
<b>Shareholders' equity</b>	<b>1,412.2</b>	<b>1,429.2</b>	<b>1,324.9</b>

Edgar Filing: DOLLAR TREE INC - Form 10-Q

Total Liabilities and Shareholders' Equity	\$ 2,362.1	\$ 2,289.7	\$ 2,180.5
Common shares outstanding	125.6	131.3	132.4

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

[Back to Index](#)



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

(In millions)	39 Weeks Ended	
	October 30, 2010	October 31, 2009
Cash flows from operating activities:		
Net income	\$ 234.8	\$ 185.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	117.6	116.5
Other non-cash adjustments to net income	40.5	19.2
Changes in operating assets and liabilities	(218.1)	(98.6 )
Net cash provided by operating activities	174.8	222.6
Cash flows from investing activities:		
Capital expenditures	(146.7)	(113.8)
Purchase of short-term investments	(60.8 )	-
Proceeds from sales of short-term investments	6.1	-
Purchase of restricted investments	(36.4 )	(10.5 )
Proceeds from sales of restricted investments	52.0	6.4
Other	(0.2 )	-
Net cash used in investing activities	(186.0)	(117.9)
Cash flows from financing activities:		
Payments for share repurchases	(275.9)	(154.6)
Proceeds from stock issued pursuant to stock-based compensation plan	18.3	24.1
Tax benefit of stock-based compensation	7.8	3.8
Other	(1.1 )	(0.3 )
	(250.9)	(127.0)

Net cash used in financing activities		
Net decrease in cash and cash equivalents	(262.1)	(22.3 )
Cash and cash equivalents at beginning of period	571.6	364.4
Cash and cash equivalents at end of period	\$ 309.5	\$ 342.1
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 4.9	\$ 5.5
Income taxes	\$ 164.9	\$ 139.4

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

[Back to Index](#)

DOLLAR TREE, INC.  
AND SUBSIDIARIES  
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 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 January 30, 2010 contained in the Company's Annual Report on Form 10-K filed March 19, 2010. The results of operations for the 13 weeks and 39 weeks ended October 30, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year ending January 29, 2011.

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 October 30, 2010 and October 31, 2009 and the results of its operations and cash flows for the periods presented. The January 30, 2010 balance sheet information was derived from the audited consolidated financial statements as of that date.

On May 26, 2010, the Company's Board of Directors approved a 3-for-2 stock split in the form of a 50% common stock dividend. New shares were distributed on June 24, 2010 to shareholders of record as of the close of business on June 10, 2010. As a result, all share and per share data in these condensed consolidated financial statements and accompanying notes have been retroactively adjusted to reflect this stock split.

### 2. MERCHANDISE INVENTORIES

The Company assigns cost to store inventories using the retail inventory method, determined on a weighted average cost basis. Since inception through fiscal 2009, the Company used one inventory pool for this calculation. Over the years, the Company has invested in retail technology systems, that has allowed it to refine the estimate of inventory cost under the retail method. On January 31, 2010, the first day of fiscal 2010, the Company began using approximately thirty inventory pools in its retail inventory calculation. As a result of this change, the Company recorded a non-cash charge to gross profit and a corresponding reduction in inventory, at cost, of approximately \$26.3 million in the first quarter of 2010. This is a prospective change and will not have any effect on prior periods. This change in estimate to include thirty inventory pools in the retail method calculation is preferable to using one pool in the calculation as this will give the Company a more accurate estimate of cost of store level inventories.

### 3. 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 for approximately 2.7 million gallons of diesel fuel, or approximately 65% of the Company's fuel needs from November 2010 through January 2011 and approximately 0.6 million gallons of diesel fuel or approximately 20% of the Company's fuel needs from February 2011 through April 2011. 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 earnings. The fair value of these contracts at October 30, 2010 was a net liability of \$0.1 million.

#### 4. FAIR VALUE MEASUREMENTS

The Company's cash and cash equivalents, short-term investments, restricted investments and interest rate and diesel fuel swaps represent the financial assets and liabilities that were accounted for at fair value on a recurring basis as of October 30, 2010. 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, short-term investments and restricted investments was \$309.5 million, \$82.5 million and \$62.7 million, respectively at October 30, 2010. These fair values were determined using Level 1 measurements in the fair value hierarchy. The fair value of the interest rate swaps as of October 30, 2010 was a liability of \$1.6 million and the fair value of the diesel fuel swaps as of October 30, 2010 was a net liability of \$0.1 million. These fair values were estimated using Level 2 measurements in the fair value hierarchy. These estimates used discounted cash flow calculations based upon forward interest-rate yield and diesel cost curves.

The carrying value of the Company's long-term debt approximates its fair value because the debt's 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 39 weeks ended October 30, 2010.

#### 5. INCOME TAXES

During the third quarter of 2010, the Company adjusted its balance of unrecognized tax benefits primarily as a result of recording a reduction in accrued Federal and state tax reserves. Accordingly, "income taxes payable long-term" was reduced by \$0.3 million. The total amount of unrecognized tax benefits at October 30, 2010, that, if recognized would affect the effective tax rate was \$9.9 million (net of the Federal tax benefit).

During the third quarter of 2009, the Company adjusted its balance of unrecognized tax benefits primarily as a result of recording a reduction in accrued Federal and state tax reserves. Accordingly, "income taxes payable long-term" was reduced by \$0.7 million. The total amount of unrecognized tax benefits at October 31, 2009, that, if recognized would affect the effective tax rate was \$10.2 million (net of the Federal tax benefit).

#### 6. OTHER INCOME

During the third quarter of 2010, Ollie's Holdings, Inc. (Ollie's) declared a dividend and the Company's share is approximately \$7.5 million based on its 10.5% ownership. The Company recognized \$5.0 million of dividend income and an additional \$2.5 million was recorded as a reduction of the Company's investment to reflect the dividend amount in excess of the Company's share of Ollie's retained earnings over the ownership period.

## 7. NET INCOME PER SHARE

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

	13 Weeks Ended		39 Weeks Ended	
	October	October	October	October
	30,	31,	30,	31,
(In millions, except per share data)	2010	2009	2010	2009
Basic net income per share:				
Net income	\$ 93.2	\$ 68.2	\$ 234.8	\$ 185.5
Weighted average number of shares outstanding	126.9	133.9	127.8	134.7
Basic net income per share	\$ 0.73	\$ 0.51	\$ 1.84	\$ 1.38
Diluted net income per share:				
Net income	\$ 93.2	\$ 68.2	\$ 234.8	\$ 185.5
Weighted average number of shares outstanding	126.9	133.9	127.8	134.7
Dilutive effect of stock options and restricted stock units (as determined by applying the treasury stock method)	0.9	0.9	0.9	0.9
Weighted average number of shares and dilutive potential shares outstanding	127.8	134.8	128.7	135.6
Diluted net income per share	\$ 0.73	\$ 0.51	\$ 1.82	\$ 1.37

For the 13 and 39 weeks ended October 30, 2010 and the 13 and 39 weeks ended October 31, 2009, substantially all of the stock options outstanding were included in the calculation of the weighted average number of shares and dilutive potential shares outstanding.

#### 8. STOCK-BASED COMPENSATION

The Company's stock-based compensation expense includes the fair value of granted stock options and restricted stock units (RSUs) and employees' purchase rights under the Company's Employee Stock Purchase Plan. Stock-based compensation expense was \$6.8 million and \$21.3 million, during the 13 and 39 weeks ended October 30, 2010, respectively. Stock-based compensation expense was \$5.3 million and \$16.2 million, during the 13 and 39 weeks ended October 31, 2009, respectively.

The Company granted approximately 0.6 million service-based RSUs from the Equity Incentive Plan (EIP) and the Executive Officer Equity Incentive Plan (EOEP) to employees and officers in the 39 weeks ended October 30, 2010. The estimated \$24.0 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 \$6.3 million of expense related to these RSUs for the 13 and 39 weeks ended October 30, 2010, respectively.

In fiscal 2010 the Company granted 0.2 million RSUs from the EIP and the EOEP to certain officers of the Company, contingent on the Company meeting certain performance targets in fiscal 2010. If the Company meets these performance targets in fiscal 2010, then the RSUs will vest ratably over three years, ending April 1, 2013. The Company recognized \$1.5 million and \$3.4 million of expense related to these RSUs in the 13 and 39 weeks ended October 30, 2010, respectively.

The Company recognized \$2.7 million and \$9.0 million of expense related to RSUs granted prior to fiscal 2010 in the 13 and 39 weeks ended October 30, 2010, respectively. For the 13 and 39 weeks ended October 31, 2009, the Company recognized \$1.5 million and \$3.4 million of expense related to RSUs, respectively.

In the 39 weeks ended October 30, 2010, approximately 0.7 million RSUs vested and approximately 0.5 million shares, net of taxes were issued. During the 39 weeks ended October 31, 2009, approximately 0.5 million RSUs vested and approximately 0.3 million shares, net of taxes were issued. Less than 0.1 million RSUs vested in the 13 weeks ended October 30, 2010 and October 31, 2009.

## 9. SHAREHOLDERS' EQUITY

### Comprehensive Income

The Company's comprehensive income reflects the effect of recording the interest rate swaps entered into in March 2008 at fair value. The following table provides a reconciliation of Net income to Total comprehensive income:

(In millions)	13 Weeks Ended		39 Weeks Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Net income	\$ 93.2	\$ 68.2	\$ 234.8	\$ 185.5
Fair value adjustment-derivative cash flow hedging instrument	1.0	-	2.5	(0.1 )
Income tax expense	(0.4 )	-	(1.0 )	-
Fair value adjustment, net of tax	0.6	-	1.5	(0.1 )
Total comprehensive income	\$ 93.8	\$ 68.2	\$ 236.3	\$ 185.4

### Share Repurchase Program

On March 19, 2010, the Company entered into an agreement to repurchase \$200.0 million of the Company's common shares under an Accelerated Share Repurchase Agreement (ASR). The entire \$200.0 million was subject to a "collar" agreement. Under this agreement, the Company initially received 4.6 million shares through March 31, 2010, representing 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. The maximum number of shares that could have been received under the agreement was 5.2 million. The number of shares was determined based on the weighted average market price of the Company's common stock, less a discount, during a specified period of time. The repurchase period ranged from one and one-half to four months following the two week maximum hedge completion period. The ASR concluded on August 6, 2010 and the weighted average market price through August 6, 2010 as defined in the "collared" agreement was \$41.41. Therefore, on August 6, 2010, the Company received an additional 0.4 million shares under the "collared" agreement resulting in 5.0 million total shares being repurchased under the ASR.



The Company also repurchased on the open market, approximately 1.4 and 2.0 million shares of common stock for approximately \$72.4 million and \$90.8 million during the 13 and 39 weeks ended October 30, 2010. Approximately 0.3 million shares totaling \$17.3 million had not settled as of October 30, 2010 and these amounts have been accrued in the accompanying condensed consolidated balance sheet as of October 30, 2010. The Company also had 0.1 million shares totaling \$2.4 million that were accrued as share repurchases at January 30, 2010 that settled during the 39 weeks ended October 30, 2010. The Company repurchased approximately 2.1 and 5.2 million shares of common stock for approximately \$69.3 million and \$154.6 million during the 13 and 39 weeks ended October 31, 2009.

In June 2010, the Company's Board of Directors authorized the repurchase of an additional \$500.0 million of the Company's common stock, which was in addition to the October 2007 authorization which had \$42.2 million remaining at that time. As of October 30, 2010, the Company has \$469.8 million remaining under the June 2010 repurchase authorization.

## Share Authorization

On June 17, 2010, the shareholders approved an amendment to the Company's Articles of Incorporation to increase the authorized shares of the Company's common stock from Three Hundred Million to Four Hundred Million shares.

## 10. LITIGATION MATTERS

In 2006, a former store manager filed a collective action against the Company in Alabama federal court. She claims 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) notice to be sent to all store managers employed for the three years immediately preceding the filing of the suit. Approximately 265 individuals are included in the collective action. The Court on its own motion continued the case from its previously scheduled July 2010 trial date. The Company's motion to decertify the collective action has been dismissed without prejudice to refile at a later date. Additional discovery, pursuant to the Court's direction, is presently ongoing. There is no scheduled trial date. The Company will continue to vigorously defend itself in this matter.

In 2007, two store managers filed a class action against the Company in California federal court, claiming they and other California store managers should have been classified as non-exempt employees under California and federal law. The Court has allowed notice to be sent to all California store managers employed since December 12, 2004, and a class of approximately 273 individuals remains. The Company filed a motion to decertify the class which was both granted and denied in part. The current class was redefined by the Court in its ruling which resulted in a significant reduction in the number of class members. The Company has filed a motion for summary judgment to dismiss the entire remaining class or in the alternative, to decertify it. If that motion is denied, the case is scheduled to proceed to trial in March of 2011. The Company is vigorously defending itself in this matter.

In 2008, the Company was sued under the Equal Pay Act in Alabama federal court by two female store managers alleging that they and other female store managers were paid less than male store managers. Among other things, they seek monetary damages and back pay. The Court ordered that notice be sent to potential plaintiffs and there are now approximately 363 opt-in plaintiffs. The Company expects that the Court will rule upon a motion by the Company to decertify the collective action later in 2010, or early next year. In October 2009, 34 plaintiffs, most of whom are opt-in plaintiffs in the Alabama action, filed a new class action Complaint in a federal court in Virginia, alleging gender pay and promotion discrimination under Title VII. On March 11, 2010, the case was dismissed with prejudice. Plaintiffs then filed a motion requesting the Court to alter, amend and vacate its dismissal Order which the trial Court denied. Plaintiffs have filed an appeal to the U.S. Court of Appeals for the Fourth Circuit. It is anticipated the appellate process may take approximately a year.

In 2010, two former assistant store managers filed a collective action against the Company in a Florida federal court. Their amended claim is that they were required to work off the clock without compensation in violation of the Fair Labor Standards Act. At present, there is no trial date. The Company will continue to vigorously defend itself in this matter.

The Company does not believe that any of these matters will, individually or in the aggregate, have a material adverse 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 adverse effect on its results of operations for the period in which they are resolved.

[Back to Index](#)

## 11. SUBSEQUENT EVENTS

In November 2010, the Company completed its acquisition of 86 Dollar Giant stores for approximately \$51.8 million plus the assumption of certain liabilities, subject to post closing adjustments. Under the terms of the agreement, Dollar Tree acquired 86 Dollar Giant stores including substantially all assets, inventory, leasehold rights and intellectual property. Based in Vancouver, British Columbia, Dollar Giant stores offer a wide assortment of quality general merchandise, contemporary seasonal goods and everyday consumables, all priced at \$1.25 (CAD) or less. The stores average 9,000 gross square feet and operate in British Columbia, Ontario, Alberta and Saskatchewan. This is the Company's first expansion of its retail operations outside of the United States.

### 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 effect on quarterly gross profit of using the new retail inventory calculation;
- 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;
- 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 and Hong Kong.

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 19, 2010. Also see section 1A. "Risk Factors" in Part II of this Quarterly Report on Form 10-Q.

- Our profitability is especially vulnerable to cost increases.
- 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.
  - We could encounter disruptions or additional costs in receiving and distributing merchandise.
    - We may be unable to expand our square footage as timely and profitably as planned.
  - Sales below our expectations during peak seasons may cause our operating results to suffer materially.
- Our sales and profits rely on directly and indirectly imported merchandise which may increase in cost or become unavailable.
  - A downturn in economic conditions could adversely affect our sales.
    - Our profitability is affected by the mix of products we sell.
  - Pressure from competitors, including competition for merchandise, may reduce our sales and profits.
  - The price of our common shares as traded on the Nasdaq Global Select Market may be volatile.
- Certain provisions in our articles of incorporation and bylaws could delay or discourage a takeover attempt.

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 October 30, 2010 we operated 4,009 stores in 48 states, with 34.4 million selling square feet compared to 3,803 stores with 32.3 million selling square feet at October 31, 2009. During the 39 weeks ended October 30, 2010, we opened 216 stores, expanded 95 stores and closed 13 stores, compared to 233 stores opened, 74 stores expanded and 21 stores closed during the 39 weeks ended October 31, 2009. In the 39 weeks ended October 30, 2010 and October 31, 2009, we added approximately 2.1 million and 2.0 million selling square feet, respectively, of which approximately 0.4 million and 0.3 million, respectively, was added through expanding existing stores. The average

size of stores opened during the 39 weeks ended October 30, 2010 was approximately 8,400 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 39 weeks ended October 30, 2010, comparable store net sales increased 8.7% and 7.3%, respectively due to increased traffic and increased 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 October 30, 2010, and we continued the roll-out of frozen and refrigerated merchandise to more of our stores. At October 30, 2010, we had frozen and refrigerated merchandise in approximately 1,800 stores compared to approximately 1,400 stores at October 31, 2009. 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 now accept food stamps (under the Supplemental Nutrition Assistance Program (“SNAP”)) in approximately 3,300 qualified stores compared to approximately 2,700 stores at October 31, 2009.

We have continued to see increases in the demand for basic, consumable products in 2010. As a result, we have shifted the mix of inventory carried in our stores to more consumer product merchandise. While this merchandise has lower margins, it is more frequently purchased and we believe carrying this merchandise increases the customer visits to our stores, which has helped increase our overall sales and earnings. While the higher sales will leverage our fixed costs, we believe that this increase in basic, consumer product merchandise along with higher freight costs will negatively impact our gross profit margin rate for the remainder of 2010.

We assign cost to store inventories using the retail inventory method, determined on a weighted average cost basis. Since inception through fiscal 2009, we used one inventory pool for this calculation. Over the years, we have invested in our retail technology systems, that has allowed us to refine the estimate of inventory cost under the retail method. On January, 31, 2010, the first day of fiscal 2010, we began using approximately thirty inventory pools in our retail inventory calculation. This change gives us a more accurate inventory cost which will facilitate improved decision making and will enhance our assortment planning process. As a result of this change, we recorded a non-cash charge to gross profit and a corresponding reduction in inventory, at cost, of approximately \$26.3 million in the first quarter of 2010. This is a prospective change and will not have any effect on prior periods. This change could result in more variability in gross profit between quarters compared to the previous calculation.

## Results of Operations

### 13 Weeks Ended October 30, 2010 Compared to the 13 Weeks Ended October 31, 2009

**Net sales.** Net sales increased 14.2%, or \$177.9 million, over last year’s third quarter resulting from an 8.7% increase in comparable store net sales and sales in our new stores. 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 increased to 35.5% in the current quarter compared to 35.3% for the same quarter last year. This increase can be attributed to the following:

- Occupancy and distribution costs decreased 75 basis points in the quarter resulting from the leveraging of the comparable store net sales increase.
  - Markdown and shrink costs decreased 30 basis points in the quarter due to fewer markdowns being taken compared to the prior year quarter and improved shrink results in the current year quarter.
  - Merchandise costs, including freight, increased approximately 85 basis points in the quarter due to higher inbound freight costs compared to the prior year quarter, the sales mix of higher cost consumer product merchandise and the new retail inventory calculation resulting in a change in expense recognition between the third and fourth quarters.





**Selling, General and Administrative Expenses.** Selling, general, and administrative expenses for the current quarter decreased to 25.6%, as a percentage of net sales, compared to 26.7% for the same period last year. This decrease was primarily due to the following:

- Payroll-related expenses decreased 35 basis points due primarily to the leverage associated with the comparable store sales increase.
- Depreciation decreased 35 basis points primarily due to the leveraging associated with the increase in comparable store net sales in the current quarter.
- Store operating costs decreased 20 basis points primarily due to the leveraging associated with the increase in comparable store net sales and a reduction in repairs costs as a percentage of sales.
- Operating and corporate expenses decreased 20 basis points primarily due to a realized gain related to a legal matter.

**Operating Income.** Operating income for the current quarter was 9.9% as a percentage of net sales compared to 8.6% for the same period last year reflecting the increased gross profit margin and decreased selling, general and administrative expenses, as a percentage of net sales, noted above.

**Other Income.** Other income for the current quarter reflects primarily dividend income related to our investment in Ollie's Holdings, Inc.

**Income Taxes.** Our effective tax rate for the 13 weeks ended October 30, 2010 was 35.6% compared to 35.7% for the 13 weeks ended October 31, 2009.

#### 39 Weeks Ended October 30, 2010 Compared to the 39 Weeks Ended October 31, 2009

**Net sales.** Net sales increased 13.2%, or \$484.5 million, over the same period last year resulting from a 7.3% increase in comparable store net sales and sales in our new stores. 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.** For the 39 weeks ended October 30, 2010, our gross profit margin decreased to 34.6% compared to our gross profit margin of 34.8% for the 39 weeks ended October 31, 2009, as a result of the \$26.3 million non-cash beginning inventory adjustment. This adjustment reflects our refined estimate of inventory cost as of January 31, 2010 using approximately thirty inventory pools in our retail inventory calculation, whereas, prior to the first quarter of 2010, we used one inventory pool for this calculation. Without this charge, our gross profit margin increased to 35.3% for the 39 weeks ended October 30, 2010 compared to 34.8% for the 39 weeks ended October 31, 2009. This increase can be attributed to the following:

- Occupancy and distribution costs decreased 50 basis points in the current year resulting from the leveraging of the comparable store net sales increase.
- Shrink costs decreased 20 basis points in the current year due to favorable adjustments to shrink estimates based on actual inventory results.
- Merchandise cost, including freight, increased 25 basis points in the current year due to higher inbound freight costs compared to the prior year and sales mix of higher cost consumer product merchandise.

**Selling, General and Administrative Expenses.** Selling, general, and administrative expenses for the 39 weeks ended October 30, 2010 decreased to 25.7%, as a percentage of net sales, compared to 26.8% for the same period last year. This decrease was primarily due to the following:

Edgar Filing: DOLLAR TREE INC - Form 10-Q

- Payroll-related expenses decreased 50 basis points due primarily to the leveraging of the comparable store sales increase and a decrease in our workers compensation accruals as a result of favorable development of prior year claims.
- Depreciation decreased 30 basis points primarily due to the leveraging associated with the increase in comparable store net sales in the current year.
- Store operating costs decreased 25 basis points primarily due to the leveraging associated with the increase in comparable store net sales and a reduction in repairs costs as a percentage of sales.

**Operating Income.** Operating income for the 39 weeks ended October 30, 2010 was 8.9% as a percentage of net sales compared to 8.0% for the same period last year. This increase reflects decreased selling, general and administrative expenses, slightly offset by decreased gross profit margin, as a percentage of net sales, noted above including the \$26.3 million adjustment to reduce beginning inventory on the first day of fiscal 2010. Without this adjustment, our operating income for the 39 weeks ended October 30, 2010, as a percentage of sales, was 9.6%.

**Income Taxes.** Our effective tax rate for the 39 weeks ended October 30, 2010 was 36.8% compared to 36.2% for the 39 weeks ended October 31, 2009. The lower rate in the prior year period reflects a reduction in tax expense of \$2.3 million resulting from an immaterial correction of deferred tax assets relating to fixed assets.

### 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 expansion programs and repurchased shares from internally generated funds and borrowings under our credit facilities.

The following table compares cash flow information for the 39 weeks ended October 30, 2010 and October 31, 2009:

(In millions)	39 Weeks Ended	
	October 30, 2010	October 31, 2009
Net cash provided by (used in):		
Operating activities	\$ 174.8	\$ 222.6
Investing activities	(186.0)	(117.9)
Financing activities	(250.9)	(127.0)

Net cash provided by operating activities decreased \$47.8 million due primarily to increased inventory levels due to the timing of receipts and increased incentive compensation payouts in the current year resulting from the higher accruals at the end of fiscal 2009. Partially offsetting these decreases in cash provided by operations were sources of cash from increased earnings before depreciation and amortization and increased other non-cash adjustments resulting primarily from the \$26.3 million adjustment to reduce beginning inventory.

Net cash used in investing activities increased \$68.1 million primarily due to short-term investment purchases in the current year and increased capital expenditures. Capital expenditures increased in the current year primarily resulting from an increase in the number of freezers installed in the current year and payments for our new distribution center in San Bernardino, CA that opened during the first quarter of fiscal 2010.

Net cash used in financing activities increased \$123.9 million compared with the prior year, primarily due to increased share repurchases in the current year.

At October 30, 2010, our long-term borrowings were \$266.5 million, our capital lease commitments were \$0.2 million and we had \$300.0 million available on the revolving credit portion of our Unsecured Credit Agreement. We also have \$121.5 million and \$50.0 million Letter of Credit Reimbursement and Security Agreements, under which approximately \$121.6 million was committed to letters of credit issued for routine purchases of imported merchandise as of October 30, 2010.

[Back to Index](#)

On March 19, 2010, we entered into an agreement to repurchase \$200.0 million of our common shares under an Accelerated Share Repurchase Agreement (ASR). The entire \$200.0 million was subject to a “collar” agreement. Under this agreement, we initially received 4.6 million shares through March 31, 2010, representing 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. The maximum number of shares that could have been received under the agreement was 5.2 million. The number of shares was determined based on the weighted average market price of our common stock, less a discount, during a specified period of time. The repurchase period ranged from one and one-half to four months following the two week maximum hedge completion period. The ASR concluded on August 6, 2010 and the weighted average market price through August 6, 2010 as defined in the “collared” agreement was \$41.41. Therefore, on August 6, 2010, we received an additional 0.4 million shares under the “collared” agreement resulting in 5.0 million total shares being repurchased under the ASR.

We also repurchased approximately 1.4 and 2.0 million shares of common stock for approximately \$72.4 million and \$90.8 million during the 13 and 39 weeks ended October 30, 2010. Approximately 0.3 million shares totaling \$17.3 million had not settled as of October 30, 2010 and these amounts have been accrued in the accompanying condensed consolidated balance sheet as of October 30, 2010. We also had 0.1 million shares totaling \$2.4 million that were accrued as share repurchases at January 30, 2010 that settled during the 39 weeks ended October 30, 2010. We repurchased approximately 2.1 and 5.2 million shares of common stock for approximately \$69.3 million and \$154.6 million during the 13 and 39 weeks ended October 31, 2009.

In June 2010, our Board of Directors authorized the repurchase of an additional \$500.0 million of our common stock, which was in addition to the October 2007 authorization which had \$42.2 million remaining at that time. As of October 30, 2010, we had \$469.8 million remaining under the June 2010 repurchase authorization.

On June 17, 2010, the shareholders approved an amendment to our Articles of Incorporation to increase the authorized shares of our common stock from Three Hundred Million to Four Hundred Million shares.

### 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, fuel costs and foreign currency rate fluctuations. We may enter into interest rate swaps, fuel hedges and foreign currency forward contracts to manage our exposure to market risk. We do not enter into derivative instruments for any purpose other than cash flow hedging purposes.

On March 20, 2008, we entered into two \$75.0 million interest rate swap agreements. These interest rate swaps are used to manage the risk associated with interest rate fluctuations on a portion of our variable rate debt. Under these agreements, we pay interest to financial institutions at a fixed rate of 2.8%. In exchange, the financial institutions pay us at a variable rate, which equals the variable rate on the debt, excluding the credit spread. These swaps qualify for hedge accounting treatment and expire in March 2011. The fair value of these swaps as of October 30, 2010 and October 31, 2009 was a liability of \$1.6 million and \$4.4 million, respectively.

In order to manage fluctuations in cash flows resulting from changes in diesel fuel costs, we entered into fuel derivative contracts with third parties for approximately 2.7 million gallons of diesel fuel, or approximately 65% of our fuel needs from November 2010 through January 2011 and approximately 0.6 million gallons of diesel fuel, or approximately 20% of our fuel needs from February 2011 through April 2011. 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 earnings. The fair

value of these contracts at October 30, 2010 was a net liability of \$0.1 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 October 30, 2010, 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 October 30, 2010 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;
- product safety matters, which may include product recalls in cooperation with the Consumer Products Safety Commission or other jurisdictions;
- personal injury/wrongful death claims; 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 10. Litigation Matters", included in "Part I. Financial Information, Item 1. Financial Statements" of this Form 10-Q.

We will vigorously defend ourselves in these lawsuits. 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 SEC on March 19, 2010.

[Return to Index](#)





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

The following table presents our share repurchase activity for the 13 weeks ended October 30, 2010:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions)
August 1, 2010 to August 28, 2010	-	\$ -	-	\$ 542.2
August 29, 2010 to October 2, 2010	-	-	-	542.2
October 3, 2010 to October 30, 2010	1,421,700	50.92	1,421,700	469.8
Total	1,421,700	\$ 50.92	1,421,700	\$ 469.8

On March 19, 2010, we entered into an agreement to repurchase \$200.0 million of our common shares under an Accelerated Share Repurchase Agreement (ASR). The ASR concluded on August 6, 2010 and the weighted average market price through August 6, 2010 as defined in the “collared” agreement was \$41.41. Therefore, on August 6, 2010, we received an additional 0.4 million shares under the “collared” agreement resulting in 5.0 million total shares being repurchased under the ASR. See additional discussion of the ASR in the Liquidity and Capital Resources section of, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” found elsewhere in this report.

In June 2010, our Board of Directors authorized the repurchase of an additional \$500.0 million of our common stock, which was in addition to the October 2007 authorization which had \$42.2 million remaining at that time. As of October 30, 2010, we had \$469.8 million remaining under the June 2010 repurchase authorization.

## Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

## Item 4. REMOVED AND RESERVED.

Item 5. OTHER INFORMATION.

None.

Item 6. EXHIBITS.

3.1 Articles of Incorporation of Dollar Tree, Inc. (as amended, effective June 17, 2010) (Exhibit 3.1 to the Company's June 17, 2010 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 Purchase Agreement dated October 10, 2010 (Exhibit 10.1 to the Company's October 12, 2010 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.INSXBRL Instance Document

101.SCHXBRL Taxonomy Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

[Back to Index](#)

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 18, 2010

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

20

---

Forward to Exhibit 31.1