

DOLLAR TREE INC  
Form 10-Q  
June 09, 2016

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 April 30, 2016

OR

☐ Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

Commission File Number: 0-25464

DOLLAR TREE, INC.

(Exact name of registrant as specified in its charter)

Virginia 26-2018846  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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 ☒

As of June 6, 2016, there were 235,666,096 shares of the Registrant's Common Stock outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

DOLLAR TREE, INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS

(Unaudited)

	13 Weeks Ended	
	April 30,	May 2,
(in millions, except per share data)	2016	2015
Net sales	\$5,085.8	\$2,176.7
Cost of sales	3,531.2	1,427.8
Gross profit	1,554.6	748.9
Selling, general and administrative expenses	1,135.9	516.1
Operating income	418.7	232.8
Interest expense, net	87.3	122.2
Other income, net	(0.2)	(2.6)
Income before income taxes	331.6	113.2
Income tax expense	98.9	43.7
Net income	\$232.7	\$69.5
Basic net income per share	\$0.99	\$0.34
Diluted net income per share	\$0.98	\$0.34

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

DOLLAR TREE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	13 Weeks Ended	
	April	May
(in millions)	30,	2,
	2016	2015
Net income	\$232.7	\$69.5
Foreign currency translation adjustments	8.9	5.5
Total comprehensive income	\$241.6	\$75.0

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

(in millions)	April 30, 2016	January 30, 2016	May 2, 2015
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$929.7	\$736.1	\$870.4
Restricted cash	—	—	7,244.1
Short-term investments	4.0	4.0	—
Merchandise inventories, net	2,929.5	2,885.5	1,093.5
Current deferred tax assets, net	—	—	19.8
Other current assets	308.9	310.3	107.8
Total current assets	4,172.1	3,935.9	9,335.6
Property, plant and equipment, net of accumulated depreciation of \$2,306.4, \$2,172.0 and \$1,808.5, respectively	3,153.2	3,125.5	1,226.0
Assets available for sale	11.7	12.1	—
Goodwill	5,024.9	5,021.7	166.1
Deferred tax assets, net	—	—	38.6
Favorable lease rights, net	543.9	569.4	0.2
Tradenname intangible asset	3,100.0	3,100.0	—
Other intangible assets, net	5.6	5.8	1.1
Other assets	49.5	130.8	101.6
Total assets	\$16,060.9	\$15,901.2	\$10,869.2
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Current portion of long-term debt	\$120.5	\$108.0	\$—
Accounts payable	1,260.3	1,251.9	515.6
Other current liabilities	622.1	722.6	474.3
Income taxes payable	46.2	12.9	25.3
Total current liabilities	2,049.1	2,095.4	1,015.2
Long-term debt, net, excluding current portion	7,209.8	7,238.4	7,819.7
Unfavorable lease rights, net	142.9	149.3	—
Deferred tax liabilities, net	1,566.2	1,586.6	—
Income taxes payable, long-term	71.1	71.4	6.1
Other liabilities	352.2	353.2	157.4
Total liabilities	11,391.3	11,494.3	8,998.4
Commitments and contingencies			
Shareholders' equity	4,669.6	4,406.9	1,870.8
Total liabilities and shareholders' equity	\$16,060.9	\$15,901.2	\$10,869.2
Common shares outstanding	235.6	235.0	206.2
See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.			

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

	13 Weeks Ended	
	April 30, 2016	May 2, 2015
(in millions)		
Cash flows from operating activities:		
Net income	\$232.7	\$69.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	162.3	52.8
Provision for deferred taxes	(20.4 )	1.2
Amortization of debt discount and debt-issuance costs	4.7	2.6
Other non-cash adjustments to net income	27.7	22.2
Changes in operating assets and liabilities	(96.0 )	2.1
Net cash provided by operating activities	311.0	150.4
Cash flows from investing activities:		
Capital expenditures	(175.9 )	(66.9 )
Increase in restricted cash	—	(7,244.1)
Purchase of restricted investments	(36.1 )	—
Proceeds from sale of restricted investments	118.1	—
Proceeds from fixed asset disposition	1.1	—
Net cash used in investing activities	(92.8 )	(7,311.0)
Cash flows from financing activities:		
Principal payments for long-term debt	(20.8 )	—
Proceeds from long-term debt	—	7,180.2
Debt-issuance costs	—	(5.2 )
Proceeds from stock issued pursuant to stock-based compensation plans	14.4	2.6
Cash paid for taxes on exercises/vesting of stock-based compensation	(18.4 )	(20.6 )
Tax benefit of exercises/vesting of stock-based compensation	—	9.6
Net cash provided by (used in) financing activities	(24.8 )	7,166.6
Effect of exchange rate changes on cash and cash equivalents	0.2	0.3
Net increase in cash and cash equivalents	193.6	6.3
Cash and cash equivalents at beginning of period	736.1	864.1
Cash and cash equivalents at end of period	\$929.7	\$870.4
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest, net of amounts capitalized	\$131.8	\$14.6
Income taxes	\$85.5	\$50.5
Non-cash transactions:		
Accrued capital expenditures	\$73.0	\$19.6
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 January 30, 2016 contained in the Company's Annual Report on Form 10-K filed March 28, 2016. The results of operations for the 13 weeks ended April 30, 2016 are not necessarily indicative of the results to be expected for the entire fiscal year ending January 28, 2017.

In the Company's opinion, the unaudited condensed consolidated financial statements included herein contain all adjustments (including those of a normal recurring nature) considered necessary for a fair presentation of its financial position as of April 30, 2016 and May 2, 2015 and the results of its operations and cash flows for the periods presented. The January 30, 2016 balance sheet information was derived from the audited consolidated financial statements as of that date.

On July 6, 2015, the Company acquired Family Dollar Stores, Inc. ("Family Dollar") for cash consideration of \$6.8 billion and the issuance of 28.5 million shares of the Company's common stock valued at \$2.3 billion based on the closing price of the Company's common stock on July 2, 2015 (the "Acquisition"). The results of operations of Family Dollar are included in the Company's results of operations beginning on July 6, 2015 (the "Acquisition Date").

In the first quarter of 2016, the Company adopted Accounting Standards Update ("ASU") No. 2016-09, "Compensation-Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting." This update provides for simplification of the accounting for share-based payment transactions, including the income tax consequences and classification on the statement of cash flows. Under the update, the excess tax benefits and deficiencies that result from the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes should be recognized as income tax expense or benefit in the reporting period in which they occur. Previously, the excess tax benefits were recognized in additional paid-in capital and tax deficiencies were recognized either as an offset to accumulated excess tax benefits, if any, or in the income statement. This amendment has been adopted by the Company on a prospective basis. The update also provides that excess tax benefits should be classified along with other income tax cash flows as an operating activity on the statement of cash flows. Prior to the update, excess tax benefits were separated from other income tax cash flows and classified as a financing activity. This amendment has been adopted by the Company on a prospective transition method basis. Additionally, cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows. Previously, no guidance was provided for cash flow classification of cash paid for tax-withholding purposes for shares withheld for tax purposes. This amendment has been adopted by the Company on a retrospective basis. As a result of the retrospective adoption of this amendment, \$20.6 million was reclassified in the accompanying Condensed Consolidated Statements of Cash Flows from "Changes in operating assets and liabilities" to "Cash paid for taxes on exercises/vesting of stock-based compensation" for the 13 weeks ended May 2, 2015. All amendments of the update have been adopted for all periods beginning on or after January 31, 2016.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This update will replace existing revenue recognition guidance in GAAP and requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. In July 2015, the FASB deferred the effective date of the new standard to interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before the original effective date for public business entities (interim and annual reporting periods beginning after December 15, 2016). ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the impact of the new pronouncement on



its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." This update will replace existing lease guidance in GAAP and will require lessees to recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements, such as information about variable lease payments and options to renew and terminate leases. When implemented, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The update is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of the new pronouncement on its consolidated financial statements.

## 2. ACQUISITION

No adjustments to the fair values of the identifiable assets acquired and liabilities assumed as of the Acquisition Date of July 6, 2015 were recorded in the 13 weeks ended April 30, 2016. The fair values are preliminary pending the completion of procedures related to income taxes.

The following unaudited consolidated pro forma summary has been prepared by adjusting the Company's historical data to give effect to the Acquisition as if it had occurred on February 2, 2014:

	Pro Forma
	-
	Unaudited
	13 Weeks
	Ended
	May 2,
(in millions, except per share data)	2015
Net sales	\$ 4,926.5
Net income	\$ 152.2
Basic net income per share	\$ 0.65
Diluted net income per share	\$ 0.65

The unaudited consolidated pro forma financial information was prepared in accordance with existing standards and is not necessarily indicative of the results of operations that would have occurred if the Acquisition had been completed on the date indicated, nor is it indicative of the future operating results of the Company.

Material non-recurring adjustments excluded from the pro forma financial information above consist of the step-up of Family Dollar inventory to its fair value and restructuring expenses. The Company incurred acquisition expenses totaling \$10.4 million and Family Dollar incurred \$8.0 million in the 13 weeks ended May 2, 2015.

The unaudited pro forma results do not reflect events that either have occurred or may occur after the Acquisition, including, but not limited to, the anticipated realization of ongoing savings from operating synergies in subsequent periods. They also do not give effect to certain charges that the Company incurred in connection with the Acquisition, including, but not limited to, additional professional fees, employee integration, retention and severance costs, potential asset impairments, accelerated depreciation and amortization or product rationalization charges.

For more detailed discussions of the Acquisition, please see "Note 2 - Acquisition" of "Item 8. Financial Statements and Supplementary Data" and the "Acquisition" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K filed March 28, 2016.

## 3. LONG-TERM DEBT

### Acquisition Notes

In 2015, the Company completed the offering of \$750.0 million aggregate principal amount of 5.25% senior notes due 2020 (the "2020 Notes") and \$2.5 billion aggregate principal amount of 5.75% senior notes due 2023 (the "2023 Notes," and together with the 2020 Notes, the "Acquisition Notes"). The Acquisition Notes were offered only to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and outside the United States, only to non-U.S. investors pursuant to Regulation S under the Securities Act. The Acquisition Notes have not been registered under the Securities Act or any state securities laws and may not be offered or sold in the United States absent an effective registration statement or an applicable exemption from registration requirements or a transaction not subject to the registration requirements of the Securities Act or any state securities laws. On May 5, 2016 the Company filed a registration statement on Form S-4 under the Securities Act of 1933, relating to an offer to exchange the Acquisition Notes for registered notes with substantially identical terms, as required by the registration rights agreement with the initial purchasers of the Acquisition Notes. The registration statement is not effective as of June 9, 2016. The Acquisition Notes are jointly and severally guaranteed on an unsecured, unsubordinated basis, subject to certain exceptions, by each of the Company's subsidiaries which guarantee the obligations under the Company's new senior secured credit facilities or certain other indebtedness, including Family Dollar and certain of its subsidiaries.

### Debt Covenants

As of April 30, 2016, the Company was in compliance with its debt covenants.

#### 4. INCOME TAXES

The Company's effective tax rate was 29.8% for the 13 weeks ended April 30, 2016 compared with 38.6% for the 13 weeks ended May 2, 2015. The decrease in expense for the 13 weeks ended April 30, 2016 is primarily attributable to a one-time benefit for an election allowing the Family Dollar acquisition to be treated as an asset purchase for certain state tax purposes, the adoption of the new ASU under which the incremental tax benefit recognized upon RSU vesting is recorded in income tax expense and an increase in work opportunity tax credits in relation to income for the first quarter.

#### 5. LEGAL PROCEEDINGS

The Company is a defendant in legal proceedings including those described below and 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 matters will not have a material effect on its results of operations for the periods in which they are resolved. The Company assesses its legal proceedings and reserves are established if a loss is probable and the amount of such loss can be reasonably estimated. Many if not substantially all of the contingencies described below are subject to significant uncertainties and, therefore, determining the likelihood of a loss and the measurement of any loss can be complex and subject to judgment. With respect to legal proceedings where the Company has determined that a loss is reasonably possible but not probable, the Company is unable to estimate the amount or range of the reasonably possible loss due to the inherent difficulty of predicting the outcome of and uncertainties regarding legal proceedings. The Company's assessments are based on estimates and assumptions that have been deemed reasonable by management, but that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause the Company to change those estimates and assumptions. Management's assessment of legal proceedings could change because of future determinations or the discovery of facts which are not presently known. Accordingly, the ultimate costs of resolving these proceedings may be substantially higher or lower than currently estimated.

##### Dollar Tree Active Matters

In 2011, an assistant store manager and an hourly associate filed a collective action against the Company alleging they were forced to work off the clock in violation of the Fair Labor Standards Act ("FLSA") and state law. A federal judge in Virginia ruled that all claims made on behalf of assistant store managers under both the FLSA and state law should be dismissed. The court, however, certified an opt-in collective action under the FLSA on behalf of hourly sales associates. Approximately 4,300 plaintiffs remain in the case. The court is currently reviewing and considering a revised settlement agreement. The proposed settlement amount has been accrued.

In 2013, a former assistant store manager on behalf of himself and others alleged to be similarly aggrieved filed a representative Private Attorney General Act ("PAGA") claim under California law currently pending in federal court in California. The suit alleges that the Company failed to provide uninterrupted meal periods and rest breaks; failed to pay minimum, regular and overtime wages; failed to maintain accurate time records and wage statements; and failed to pay wages due upon termination of employment. In May 2014, the same assistant store manager filed a putative class action in a California state court for essentially the same conduct alleged in the federal court PAGA case. The parties have reached an agreement to settle the two cases and the proposed settlement amount has been accrued. The two courts must approve the terms of the settlement for it to be binding and final.

In May 2014, the US Consumer Product Safety Commission ("CPSC") began a staff investigation of circumstances related to Letters of Advice that the Company received from the CPSC from 2009 to 2013. The CPSC is now investigating Letters of Advice the Company received in 2014 and 2015. It is possible for a penalty and an injunction to be issued against the Company. The outcome of this matter cannot be determined at this time.

In April 2015, a distribution center employee filed a class action in California state court with allegations concerning wages, meal and rest breaks, recovery periods, wage statements and timely termination pay. Additionally, the employee advised he will be amending his complaint to abandon his attempt to certify a nation-wide class of non-exempt distribution employees for improper calculation of overtime compensation. The Company removed this lawsuit to Federal Court.

In April 2015, a former store manager filed a class action in California state court alleging store managers were improperly classified as exempt employees and, among other things, did not receive overtime compensation and meal and rest periods and alleging PAGA claims on behalf of all store employees, including claims for failure to provide accurate wage statements.

In November 2015, the Company was served in a PAGA representative action under California law in California state court on behalf of former assistant store managers alleging defective wage statements. This case has been stayed pending the outcome of previously filed lawsuits alleging defective wage statements.

In February 2016, the Company was served in a putative collective action under the Fair Labor Standards Act in Florida federal court. The pleadings allege overtime violations on behalf of all hourly non-exempt employees. In April 2016, the Company was served with a putative class action in Florida state court brought by a former store employee asserting the Company violated the Fair Credit Reporting Act in the way it handled background checks. Specifically, the former employee alleged the Company used disclosure forms that did not meet the statute's requirements, and failed to provide notices accompanied by background reports prior to taking adverse actions against prospective and existing employees based on information in the background report. The plaintiff is seeking statutory damages of \$100 to \$1,000 per violation.

#### Family Dollar Active Matters

In 2008, a complaint was filed alleging discriminatory pay practices with respect to the Company's female store managers. This case was pled as a putative class action or collective action under applicable statutes on behalf of all Family Dollar female store managers. The plaintiffs seek recovery of back pay, compensatory and punitive money damages, recovery of attorneys' fees and equitable relief. The case was transferred to North Carolina Federal Court in November 2008. The parties are proceeding with limited discovery and the outcome of this matter cannot be determined at this time. The Company believes the case is fully insured.

In 2014, a putative class action was filed in a California Federal Court by a former employee alleging that the Company had a policy of requiring employee bag checks while the employees were not clocked in for work. As a result of those actions, the employee alleges the Company violated California law by failing to provide meal periods and rest breaks, failing to pay regular and overtime wages for work performed off the clock, failing to provide accurate wage statements, failing to timely pay all final wages and by engaging in unfair competition. He has also alleged PAGA claims. The former employee dismissed the individual claims after the court ruled that the claims were subject to arbitration. The court ruled that the PAGA claims may proceed.

In 2014, a former employee brought a putative class action and asserted claims under PAGA alleging the Company failed to provide suitable seating to its California store employees. The case has been stayed pending a ruling by the California Supreme Court on whether a drug store retailer has an obligation to provide suitable seating to drug store cashiers. The California Supreme Court has ruled and the former employee indicated he will seek to have the stay lifted.

In 2014, a former employee filed a nationwide class action in federal court in Virginia alleging the Company violated the Fair Credit Reporting Act by failing to comply with its requirements to give an individual proper notice and a reasonable time to challenge the results of a background check before taking action to deny the person employment (or terminate existing employment). The plaintiffs are seeking statutory damages of \$100 to \$1,000 per violation.

#### Resolved Matters

In 2008, a Multi-District Litigation forum ("MDL") was created in North Carolina federal court to handle cases alleging FLSA violations against the Company. In the first two cases, the court entered orders finding the plaintiffs were not similarly situated and, therefore, neither nationwide notice nor collective treatment under the FLSA was appropriate. Since that time, the court has granted 60 summary judgments ruling Store Managers are properly classified as exempt from overtime. The remaining plaintiffs have now signed an agreement with the Company to settle all remaining cases. The proposed settlement amount has been fully accrued.

In 2013, plaintiffs filed a claim in Massachusetts seeking unpaid overtime for a class of current and former Massachusetts Store Managers whom plaintiffs claim are not properly classified as exempt from overtime under Massachusetts law. The plaintiffs have signed an agreement with the Company to settle the class action. The settlement has been approved by the court and the proposed settlement amount has been fully accrued.

In 2014, the Company was served with a putative class action in Missouri Federal Court alleging the Company sent customers Short Message Service ("SMS") text message advertisements, without providing appropriate express written consent in violation of the Telephone Consumer Protection Act. The plaintiff has signed an agreement with the Company to settle the class action. The court has given preliminary approval to the settlement and the settlement amount has been fully accrued.

#### 6. FAIR VALUE MEASUREMENTS

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 following table sets forth the Company's financial assets and liabilities that are accounted for at fair value on a recurring basis:

(in millions)	April 30, 2016	January 30, 2016	May 2, 2015
Level 1			
Restricted cash	\$ —	—\$	—\$7,244.1
Restricted investments	—	82.0	90.9
Short-term investments	4.0	4.0	—
Long-term debt - secured senior notes and Acquisition Notes	3,759.6	3,754.6	3,250.0
Level 2			
Diesel fuel swap liabilities	—	0.8	3.2
Long-term debt - term loans	3,890.3	3,886.1	3,950.0
Level 3			
Long-term debt - senior notes	—	—	722.3

The Company's cash and cash equivalents are valued at cost, which approximates fair value, due to the short-term maturities of these instruments.

The fair values of the diesel fuel swaps were estimated using discounted cash flow calculations based upon forward interest-rate yield and diesel cost curves. The curves were obtained from independent pricing services reflecting broker market quotes. As of April 30, 2016, the Company did not have any diesel fuel swaps outstanding.

The fair values of the Company's secured senior notes and Acquisition Notes at April 30, 2016 and January 30, 2016 were determined using Level 1 inputs as quoted prices in active markets for identical assets or liabilities are available.

The carrying values of the Company's Acquisition Notes and Term Loan B at May 2, 2015 approximated their fair values because they had been recently issued. The fair value of the Company's term loans at April 30, 2016 and January 30, 2016 was determined using Level 2 inputs as quoted prices are readily available from pricing services, but the prices are not published. The fair value of the Company's senior notes at May 2, 2015 was determined through the use of a discounted cash flow analysis using Level 3 inputs as there were no quoted prices in active markets for this debt. The discount rate used in the analysis was based on borrowing rates available to the Company for debt of the same remaining maturities, issued in the same private placement debt market. The carrying value of the Company's Revolving Credit Agreement at April 30, 2016 and January 30, 2016 and the Company's Unsecured Credit Agreement at May 2, 2015, approximated their fair values because the interest rates vary with market interest rates.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). The Company did not record any significant impairment charges during the 13 weeks ended April 30, 2016.



## 7. NET INCOME PER SHARE

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

	13 Weeks Ended	
	April 30, 2016	May 2, 2015
(in millions, except per share data)		
Basic net income per share:		
Net income	\$232.7	\$69.5
Weighted average number of shares outstanding	235.3	206.2
Basic net income per share	\$0.99	\$0.34
Diluted net income per share:		
Net income	\$232.7	\$69.5
Weighted average number of shares outstanding	235.3	206.2
Dilutive effect of stock options and restricted stock (as determined by applying the treasury stock method)	1.1	0.9
Weighted average number of shares and dilutive potential shares outstanding	236.4	207.1
Diluted net income per share	\$0.98	\$0.34

For the 13 weeks ended April 30, 2016 and May 2, 2015, 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 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 \$24.8 million and \$18.9 million during the 13 weeks ended April 30, 2016 and May 2, 2015, respectively.

The Company granted approximately 0.5 million service-based RSUs from the Omnibus Incentive Plan (Omnibus Plan) to employees and officers in the 13 weeks ended April 30, 2016. The estimated \$40.2 million fair value of these RSUs is being expensed ratably over the three-year vesting periods, or shorter periods 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 \$5.0 million of expense related to these RSUs during the 13 weeks ended April 30, 2016.

In the 13 weeks ended April 30, 2016, the Company granted 0.2 million RSUs with a fair value of \$17.2 million from the Omnibus Plan to certain officers of the Company, contingent on the Company meeting certain performance targets in fiscal 2016. If the Company meets these performance targets in fiscal 2016, the RSUs will vest ratably over three years. The estimated fair value of these RSUs is being expensed ratably over the three-year vesting periods, or shorter periods based on the retirement eligibility of certain grantees. The Company recognized \$9.0 million of expense related to these RSUs in the 13 weeks ended April 30, 2016.

In the 13 weeks ended April 30, 2016, the Company granted RSUs with a fair value of \$3.7 million from the Omnibus Plan to certain officers of the Company, contingent on the Company meeting certain performance targets for the period beginning on January 31, 2016 and ending on February 2, 2019. Provided the vesting conditions are satisfied, the awards will vest at the end of the performance period. The estimated fair value of these RSUs is being expensed ratably over the three-year vesting period, or shorter periods based on the retirement eligibility of certain grantees. The Company recognized \$1.3 million of expense related to these RSUs in the 13 weeks ended April 30, 2016.

The Company recognized \$8.1 million of expense related to RSUs granted prior to fiscal 2016 in the 13 weeks ended April 30, 2016. For the 13 weeks ended May 2, 2015, the Company recognized \$6.1 million of expense related to these RSU's.

In the 13 weeks ended April 30, 2016, approximately 0.6 million RSUs vested and approximately 0.4 million shares, net of taxes, were issued. During the 13 weeks ended May 2, 2015, approximately 0.7 million RSUs vested and

approximately 0.4 million shares, net of taxes, were issued.

Due to the Acquisition, the Company converted approximately 1.5 million Family Dollar vested and unvested options into equivalent options to purchase Dollar Tree Common Stock at the date of Acquisition and recognized \$0.7 million of expense related to these options during the 13 weeks ended April 30, 2016. Stock options are valued using the Black-Scholes option-pricing model and compensation cost is recognized on a straight-line basis, net of estimated forfeitures, over the requisite service period.

## 9. SEGMENTS

The Company operates a chain of more than 13,900 retail discount stores in 48 states and five Canadian provinces. The Company's operations are conducted in two reporting business segments: Dollar Tree and Family Dollar. The Company defines its segments as those operations whose results its chief operating decision maker ("CODM") regularly reviews to analyze performance and allocate resources. The results of operations of Family Dollar are included in the Company's results of operations beginning on July 6, 2015.

The Dollar Tree segment is the leading operator of discount variety stores offering merchandise at the fixed price of \$1.00. The Dollar Tree segment includes the Company's operations under the "Dollar Tree" and "Dollar Tree Canada" brands, ten distribution centers in the United States, two distribution centers in Canada and a Store Support Center in Chesapeake, Virginia.

The Family Dollar segment operates a chain of general merchandise retail discount stores providing consumers with a selection of competitively priced merchandise in convenient neighborhood stores. The Family Dollar segment consists of the Company's operations under the "Family Dollar" brand, eleven distribution centers and a Store Support Center in Matthews, North Carolina.

The Company measures the results of its segments using, among other measures, each segment's net sales, gross profit and operating income. The Company may revise the measurement of each segment's operating income, including the allocation of distribution center and Store Support Center costs, as determined by the information regularly reviewed by the CODM. When the measurement of a segment changes, previous period amounts and balances are reclassified to be comparable to the current period's presentation.

Net sales by segment are as follows:

	13 Weeks Ended	
	April 30, May 2,	
(in millions)	2016	2015

Net sales:

Dollar Tree	\$2,384.5	\$2,176.7
Family Dollar	2,701.3	—
Total net sales	\$5,085.8	\$2,176.7

Gross profit by segment is as follows:

	13 Weeks Ended	
	April 30, May 2,	
(in millions)	2016	2015

Gross profit:

Dollar Tree	\$820.8	\$748.9
Family Dollar	733.8	—
Total gross profit	\$1,554.6	\$748.9

Depreciation and amortization expense by segment is as follows:

	13 Weeks	
	Ended	
	April	May
	30,	2,
(in millions)	2016	2015
Depreciation and amortization expense:		
Dollar Tree	\$57.5	\$52.8
Family Dollar	104.9	—
Total depreciation and amortization expense	\$162.4	\$52.8

Operating income by segment is as follows:

	13 Weeks	
	Ended	
	April	May 2,
	30,	2015
(in millions)	2016	2015
Operating income:		
Dollar Tree	\$280.7	\$232.8
Family Dollar	138.0	—
Total operating income	\$418.7	\$232.8

Total assets by segment are as follows:

	As of		
	April 30,	January 30,	May 2,
	2016	2016	2015
(in millions)	2016	2016	2015
Total assets:			
Dollar Tree	\$3,612.3	\$3,472.0	\$10,869.2
Family Dollar	12,448.6	12,429.2	—
Total assets	\$16,060.9	\$15,901.2	\$10,869.2

Total goodwill by segment is as follows:

	As of		
	April 30,	January 30,	May 2,
	2016	2016	2015
(in millions)	2016	2016	2015
Total goodwill:			
Dollar Tree	\$286.9	\$283.6	\$166.1
Family Dollar	4,738.0	4,738.1	—
Total goodwill	\$5,024.9	\$5,021.7	\$166.1

Goodwill is reassigned between segments when stores are rebannered between segments. In the 13 weeks ended April 30, 2016, the Company reassigned \$0.1 million of Goodwill from Family Dollar to Dollar Tree as a result of rebannered.

#### 10. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

At April 30, 2016, the Company had outstanding \$750.0 million principal amount of 5.25% Acquisition Notes due March 1, 2020 and \$2,500.0 million principal amount of 5.75% Acquisition Notes due March 1, 2023, which are unsecured obligations of the Company and are also jointly and severally guaranteed on an unsecured, unsubordinated basis, subject to certain exceptions, by certain of the Company's direct or indirect wholly-owned U.S. subsidiaries, including Family Dollar and certain of its subsidiaries. All of the subsidiaries, guarantor and non-guarantor are 100% owned by the parent. Supplemental condensed consolidated financial information of the Company, including such information for the Guarantors, is presented below. The



information is presented in accordance with the requirements of Rule 3-10 under Regulation S-X of the Securities and Exchange Commission (the "SEC"). The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the guarantor or the non-guarantor subsidiaries operated as independent entities. Investments in subsidiaries are presented using the equity method of accounting. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial statements of the Guarantors are not provided as the condensed consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the nature of the assets held by, and the operations of, the combined groups. The Company filed a registration statement on Form S-4 with the SEC on May 5, 2016 relating to an offer to exchange the Acquisition Notes for registered notes with substantially identical terms.

Condensed Consolidating Statements of Comprehensive Income

	13 Weeks ended April 30, 2016				
(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	Consolidated Company
Net sales	\$—	\$ 5,033.4	\$ 184.8	\$ (132.4 )	\$ 5,085.8
Cost of sales	—	3,489.8	160.6	(119.2 )	3,531.2
Gross profit	—	1,543.6	24.2	(13.2 )	1,554.6
Selling, general and administrative expenses	2.0	1,138.0	14.6	(18.7 )	1,135.9
Operating (loss) income	(2.0 )	405.6	9.6	5.5	418.7
Interest expense, net	72.9	16.3	(1.9 )	—	87.3
Other (income) expense, net	(5.7 )	(0.3 )	(0.1 )	5.9	(0.2 )
Income (loss) before income taxes	(69.2 )	389.6	11.6	(0.4 )	331.6
Provision for income taxes	(33.7 )	129.2	3.5	(0.1 )	98.9
Equity in earnings of subsidiaries	(268.5 )	(6.9 )	—	275.4	—
Net income	233.0	267.3	8.1	(275.7 )	232.7
Other comprehensive income	8.9	2.7	8.9	(11.6 )	8.9
Comprehensive income	\$241.9	\$ 270.0	\$ 17.0	\$ (287.3 )	\$ 241.6

## Condensed Consolidating Statements of Comprehensive Income (Continued)

13 Weeks ended May 2, 2015

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	Consolidated Company
Net sales	\$—	\$ 2,134.5	\$ 42.4	\$ (0.2 )	\$ 2,176.7
Cost of sales	—	1,392.2	35.8	(0.2 )	1,427.8
Gross profit	—	742.3	6.6	—	748.9
Selling, general and administrative expenses	12.0	490.2	13.9	—	516.1
Operating (loss) income	(12.0 )	252.1	(7.3 )	—	232.8
Interest expense, net	111.0	11.2	0.1	(0.1 )	122.2
Other (income) expense, net	—	(3.1 )	0.4	0.1	(2.6 )
Income (loss) before income taxes	(123.0)	244.0	(7.8 )	—	113.2
Provision for income taxes	(49.7 )	95.5	(2.1 )	—	43.7
Equity in earnings of subsidiaries	(142.8)	—	—	142.8	—
Net income (loss)	69.5	148.5	(5.7 )	(142.8 )	69.5
Other comprehensive income	5.5	—	5.5	(5.5 )	5.5
Comprehensive income	\$75.0	\$ 148.5	\$ (0.2 )	\$ (148.3 )	\$ 75.0

## Condensed Consolidated Balance Sheets

	April 30, 2016				
(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Company
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$—	\$ 783.6	\$ 151.0	\$ (4.9	) \$ 929.7
Short-term investments	—	—	4.0	—	4.0
Merchandise inventories, net	—	2,872.0	49.9	7.6	2,929.5
Current deferred tax assets, net	—	—	8.1	(8.1	) —
Due from intercompany, net	38.8	505.3	102.8	(646.9	) —
Other current assets	0.4	313.2	—	(4.7	) 308.9
Total current assets	39.2	4,474.1	315.8	(657.0	) 4,172.1
Property, plant and equipment, net	—	3,114.9	38.3	—	3,153.2
Assets available for sale	—	11.7	—	—	11.7
Goodwill	—	4,993.1	31.8	—	5,024.9
Deferred tax assets, net	0.6	—	—	(0.6	) —
Favorable lease rights, net	—	543.9	—	—	543.9
Tradename	—	3,100.0	—	—	3,100.0
Other intangible assets, net	—	5.4	0.2	—	5.6
Investment in subsidiaries	8,667.9	104.0	—	(8,771.9	) —
Intercompany note receivable	1,526.4	—	188.8	(1,715.2	) —
Due from intercompany, net	1,923.4	—	—	(1,923.4	) —
Other assets	—	49.3	4.5	(4.3	) 49.5
Total assets	\$12,157.5	\$ 16,396.4	\$ 579.4	\$ (13,072.4	) \$ 16,060.9
<b>LIABILITIES AND EQUITY</b>					
Current liabilities:					
Current portion of long-term debt	\$120.5	\$ —	\$ —	\$ —	\$ 120.5
Accounts payable	4.8	1,180.4	72.2	2.9	1,260.3
Due to intercompany, net	402.7	207.7	36.5	(646.9	) —
Other current liabilities	34.6	387.9	204.7	(5.1	) 622.1
Income taxes payable	32.7	4.4	9.1	—	46.2
Total current liabilities	595.3	1,780.4	322.5	(649.1	) 2,049.1
Long-term debt, net, excluding current portion	6,892.6	317.2	—	—	7,209.8
Unfavorable lease rights, net	—	142.9	—	—	142.9
Deferred tax liabilities, net	—	1,574.8	—	—	—