DOLLAR TREE INC
Form 10-K
March 28, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended January 30, 2016
Commission File No.: 0-25464
DOLLAR TREE, INC.
(Exact name of registrant as specified in its charter)

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

500 Volvo Parkway, Chesapeake, VA 23320
(Address of principal executive offices)
Registrant’s telephone number, including area code: (757) 321-5000
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (par value $.01 per share)	NASDAQ

Securities Registered Pursuant to Section 12(g) of the Act:
None
(Title of Class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes (X) No ( )
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes ( ) No (X)
Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes (X) No ( )
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes (X) No ( )

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

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

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

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

Yes ( ) No (X)

The aggregate market value of Common Stock held by non-affiliates of the Registrant on July 31, 2015, was $17,426,453,225, based on a $77.33 average of the high and low sales prices for the Common Stock on such date. For purposes of this computation, all executive officers and directors have been deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers and directors are, in fact, affiliates of the Registrant.

On March 23, 2016, there were 235,182,732 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information regarding securities authorized for issuance under equity compensation plans called for in Item 5 of Part II and the information called for in Items 10, 11, 12, 13 and 14 of Part III are incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders of the Company to be held June 16, 2016, which will be filed with the Securities and Exchange Commission not later than May 27, 2016.

DOLLAR TREE, INC.
TABLE OF CONTENTS

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 and results. They include statements preceded by, followed by or including words such as "believe," "anticipate," "expect," "intend," "plan," "view," “target” or "estimate." For example, our forward-looking statements include statements regarding:

- Family Dollar integration plans and expenses;
- the benefits, results and effects of the Family Dollar acquisition and integration and the combined company’s plans, objectives, expectations (financial or otherwise), including synergies, the cost to achieve synergies and the effect on earnings per share;
- the financial and operating performance of the divested stores;
- the ability to retain key personnel at Family Dollar and Dollar Tree;
- our anticipated sales, including comparable store net sales, net sales growth and earnings growth;
- the outcome and costs of pending or potential litigation or governmental investigations;
- our growth plans, including our plans to add, rebanner, expand or relocate stores, our anticipated square footage increase and our ability to renew leases at existing store locations;
- the average size of our stores to be added in 2016 and beyond;
- the effect on merchandise mix of consumables and the increase in the number of our stores with freezers and coolers on Dollar Tree's gross profit margin and sales;
- the net sales per square foot, net sales and operating income of our stores;
- the potential effect of inflation and other economic changes on our costs and profitability, including the potential effect of future changes in minimum wage rates, shipping rates, domestic and import freight costs, fuel costs and wage and benefit costs;
- our gross profit margin, earnings, inventory levels and ability to leverage selling, general and administrative and other fixed costs;
- our seasonal sales patterns including those relating to the length of the holiday selling seasons;
- the capabilities of our inventory supply chain technology and other systems;
- the reliability of, and cost associated with, our sources of supply, particularly imported goods such as those sourced from China;
- the capacity, performance and cost of our distribution centers;
- our cash needs, including our ability to fund our future capital expenditures and working capital requirements;
- our expectations regarding competition and growth in our retail sector;
- management's estimates associated with our critical accounting policies, including inventory valuation, accrued expenses, the Family Dollar purchase price allocation and income taxes;
- the potential effect of future law changes, including qualification for exempt status under the Fair Labor Standards Act; and
- costs expected to be incurred in 2016 for rebannering Deals stores.

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 described in "Item 1A. Risk Factors" beginning on page 12 of this Form 10-K, as well as "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 26 of this Form 10-K.

Our forward-looking statements could be wrong in light of these 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 annual 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 securities 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 projections, forecasts or opinions, such reports are not our responsibility.
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. Unless specifically indicated otherwise, any references to “2016” or “fiscal 2016”, “2015” or “fiscal 2015”, “2014” or “fiscal 2014”, and “2013” or “fiscal 2013”, relate to a
for the years ended January 28, 2017, January 30, 2016, January 31, 2015 and February 1, 2014, respectively.

AVAILABLE INFORMATION

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge on our website at www.dollartree.com as soon as reasonably practicable after electronic filing of such reports with the SEC.

PART I

Item 1. BUSINESS

Overview

We are a leading operator of discount variety stores. We believe the convenience and value we offer are key factors in growing our base of loyal customers. At January 30, 2016, we operated 13,851 discount variety retail stores. Our stores operate under the names of Dollar Tree, Family Dollar, Dollar Tree Canada, Deals and Dollar Tree Deals.

On July 6, 2015, we completed our purchase of Family Dollar Stores, Inc. and its more than 8,200 stores. This transformational transaction created the largest discount retailer (by stores) in North America. The Dollar Tree and Family Dollar banners have complementary business models. Everything is $1.00 at Dollar Tree while Family Dollar is a neighborhood variety store offering merchandise largely for $10 or less. Also, on October 13, 2015, we announced our plans to convert all Deals and Dollar Tree Deals stores to one of our two primary banners, Dollar Tree or Family Dollar. On November 1, 2015, we completed the transaction pursuant to which we divested 330 Family Dollar stores, 325 of which were open at the time of the divestiture, to Dollar Express LLC, a portfolio company of Sycamore Partners, in order to satisfy a condition as required by the Federal Trade Commission in connection with our purchase of Family Dollar.

We operate in two reporting business segments: Dollar Tree and Family Dollar.

Dollar Tree

Our Dollar Tree segment is the leading operator of discount variety stores offering merchandise at the fixed price point of $1.00. The Dollar Tree segment includes 5,954 stores operating under the Dollar Tree, Dollar Tree Canada, Deals and Dollar Tree Deals brands, ten distribution centers in the United States and two in Canada and a Store Support Center in Chesapeake, Virginia. Our stores range from predominantly 8,000 - 10,000 selling square feet. In the Dollar Tree stores in the United States, we sell all items for $1.00 or less and in the Dollar Tree Canada stores, we sell all items for $1.25(CAD) or less. In our remaining stores, operating as Deals or Dollar Tree Deals, we sell items for $1.00 or less but also sell items for more than $1.00. Our revenue and assets in Canada are not material.

We strive to exceed our customers' expectations of the variety and quality of products that they can purchase for $1.00 by offering items that we believe typically sell for higher prices elsewhere. We buy approximately 57% to 59% of our merchandise domestically and import the remaining 41% to 43%. Our domestic purchases include basic, seasonal, home, closeouts and promotional merchandise. We believe our mix of imported and domestic merchandise affords our buyers flexibility that allows them to consistently exceed the customer's expectations. In addition, direct relationships with manufacturers permit us to select from a broad range of products and customize packaging, product sizes and package quantities that meet our customers' needs.

All of our Dollar Tree stores in the United States accept cash, checks, debit cards and credit cards. We added freezers and coolers to certain stores and increased the amount of consumable merchandise carried by those stores. We believe this initiative helps drive additional transactions and allows us to appeal to a broader demographic mix. We added freezers and coolers to 665 additional stores in 2015. As of January 30, 2016, we have freezers and coolers in 4,285 of our Dollar Tree stores. We plan to install them in 400 additional stores by the end of fiscal 2016. Along with the rollout of freezers and coolers, we have increased the number of stores accepting Electronic Benefits Transfer (EBT) cards and food stamps (under the Supplemental Nutrition Assistance Program (“SNAP”)) to approximately 5,600 stores as of January 30, 2016.

At any point in time, we carry approximately 7,100 items in our stores and as of the end of 2015 approximately 35% of our items are automatically replenished. The remaining items are pushed to the stores and a portion can be reordered by our store managers on a weekly basis. Through automatic replenishment and our store managers’ ability to order product, each store manager is able to satisfy the demands of his or her particular customer base.

We maintain a balanced selection of products within traditional variety store categories. We offer a wide selection of everyday basic products and we supplement these basic, everyday items with seasonal, closeout and promotional merchandise. We attempt to keep certain basic consumable merchandise in our stores continuously to establish our stores as a destination and increase the traffic in our stores. Closeout and promotional merchandise is purchased opportunistically and represents less than 10% of our purchases.

6

Our merchandise mix in our Dollar Tree stores consists of:

- consumable merchandise, which includes candy and food, health and beauty care, and everyday consumables such as household paper and chemicals, and in select stores, frozen and refrigerated food;
- variety merchandise, which includes toys, durable housewares, gifts, stationery, party goods, greeting cards, softlines, and other items; and
- seasonal goods, which include, among others, Valentine's Day, Easter, Halloween and Christmas merchandise.

The following table shows the percentage of net sales of each major product group for the years ended January 30, 2016 and January 31, 2015:

Merchandise Type	January 30, 2016	January 31, 2015
Consumable	49.1 %	49.3 %
Variety categories	46.4 %	46.4 %
Seasonal	4.5 %	4.3 %

Family Dollar

Our Family Dollar segment operates general merchandise discount retail stores providing consumers with a selection of competitively-priced merchandise in convenient neighborhood stores. The Family Dollar segment consists of our operations under the Family Dollar brand, eleven distribution centers and a Store Support Center in Matthews, North Carolina. Our stores range from predominantly 6,000 - 8,000 selling square feet. In our 7,897 Family Dollar stores, we sell merchandise at prices that generally range from $1.00 to $10.00.

Our Family Dollar stores provide customers with a quality, high-value assortment of basic necessities and seasonal merchandise. We offer competitively-priced national brands from leading manufacturers alongside name brand equivalent-value priced private labels. We purchase merchandise from a wide variety of suppliers and generally have not experienced difficulty in obtaining adequate quantities of merchandise. In the period from July 6, 2015 through January 30, 2016, we purchased approximately 16% of our merchandise through our partnership with McLane Company, Inc., which distributes consumable merchandise from multiple manufacturers and approximately 23% of our merchandise is imported.

While the number of items in a given store can vary based on the store’s size, geographic location, merchandising initiatives and other factors, our typical store generally carries 7,000 basic items alongside items that are ever-changing and seasonally-relevant throughout the year.

Our merchandise mix in our Family Dollar stores consists of:

- consumable merchandise, which includes food, tobacco, health and beauty aids, household chemicals, paper products, hardware and automotive supplies, diapers, batteries, and pet food and supplies;
- home products, which includes housewares, home décor, giftware, and domestics, including blankets, sheets and towels;
- apparel and accessories merchandise, which includes clothing, fashion accessories and shoes; and
- seasonal and electronics merchandise, which includes Valentine's Day, Easter, Halloween and Christmas merchandise, personal electronics, including pre-paid cellular phones and services, stationery and school supplies, and toys.

The following table shows the percentage of net sales of each major product group for the period from July 6, 2015 through January 30, 2016:

Merchandise Type	January 30, 2016	
Consumable	68.4	%
Home products	9.8	%
Apparel and accessories	6.8	%
Seasonal and electronics	15.0	%

Business Strategy

Continue to execute our proven and best in class retail business strategy. We will continue to execute our proven strategies that have generated a history of success and consistent growth for the Company. Key elements of our strategy include:

- continuously aiming to "Wow" the customer with a compelling, fun and fresh merchandise assortment comprising a variety of the things you want and things you need, all at incredible values in bright, clean and friendly stores;
- maintaining a flexible sourcing merchandise model that allows a variety of products to be sold as long as desired merchandise margin hurdles are met;
- growing both the Dollar Tree and Family Dollar banners;
- pursuing a "more, better, faster" approach to the rollout of new Dollar Tree and Family Dollar stores to broaden our geographic footprint;
- maintaining customer relevance by ensuring that we reinvent ourselves constantly through new merchandise categories;
- leveraging the complementary merchandise expertise of each banner including Dollar Tree's sourcing and product development expertise and Family Dollar's consumer package goods and national brands sourcing expertise; and
- maintaining a prudent approach with our use of capital for the benefit of our shareholders.

Operate a diversified and complementary business model across both fixed price and multi price point strategies. We plan to operate and grow both the Dollar Tree and Family Dollar banners. We will utilize the reach and scale of our combined company to serve a broader range of customers in more ways, offering better prices and more value for the customer. Dollar Tree stores will continue to operate as single price point retail stores. At Dollar Tree, everything is $1.00, offering the customer a balanced mix of things they need and things they want. Our shopping experience will remain fun and friendly as we exceed our customers' expectations for what they can buy for $1.00. Dollar Tree targets middle income customers in suburban locations. Family Dollar stores will continue to operate using multiple price points, serving customers as their "neighborhood discount store," offering great values on everyday items and a convenient shopping experience. Family Dollar targets a lower income customer in urban and rural locations. We will benefit from an expanded target customer profile and utilize the store concepts of both Dollar Tree and Family Dollar to serve a broader range of customer demographics to drive further improvements in sales and profitability.

Deliver significant synergy opportunities through integration of Family Dollar. Our recent acquisition of Family Dollar will provide us with significant opportunities to achieve meaningful cost synergies. We are executing a detailed integration plan and expect to generate approximately $300 million of estimated run rate annual cost synergies by the end of the third full year following the consummation of the acquisition across the areas of:

- sourcing and procurement, through driving scale with common vendors, increasing direct factory sourcing and reducing usage of domestic importers;
- format optimization, through the re bannering of select Dollar Tree and Family Dollar stores to match the banner to the customer and tailoring merchandise offerings within existing stores to match local customer tastes;
- distribution and logistics, by reducing inbound and outbound freight costs (domestic and international) and optimizing efficiency within our combined distribution center network; and

•overhead, through the reduction of shared services costs and redundant public company and Board costs.
Take advantage of significant white-space opportunity. Over the past decade we have built a solid and scalable infrastructure, which provides a strong foundation for our future growth. We are committed to growing our combined business to take advantage of significant white space opportunities that we believe exist for both the Dollar Tree and Family Dollar store concepts. Using our proven real estate strategy across our combined business, we intend to drive future store openings by capitalizing on data driven insights regarding location, target customer profile, competitive dynamics and cost structure. Over the long-term, we believe that we can operate more than 7,000 Dollar Tree stores and 12,000 Family Dollar stores across the United States.
Convenient Locations and Store Size. We primarily focus on opening new Dollar Tree stores in strip shopping centers anchored by large retailers who draw target customers we believe to be similar to ours. Our stores are successful in metropolitan areas, mid-sized cities and small towns. The range of our store sizes, 8,000 - 10,000 selling square feet for Dollar Tree and 6,000 - 8,000 selling square feet for Family Dollar, allows us to target a particular location with a store that best suits that market and takes advantage of available real estate opportunities. Our stores are attractively designed and create an inviting atmosphere for shoppers by using bright lighting, vibrant colors and decorative signs. We enhance the store design with attractive merchandise displays. We believe this design attracts new and repeat customers and enhances our image as both a destination and impulse purchase store.
We open new Family Dollar stores in strip shopping centers, freestanding buildings and downtown buildings. The range of size of our Family Dollar stores allows us to select store locations in neighborhoods convenient to our customers in each of these market areas.
For more information on retail locations and retail store leases, see "Item 2. Properties" beginning on page 18 of this Form 10-K.
Profitable Stores with Strong Cash Flow. We maintain a disciplined, cost-sensitive approach to store site selection in order to minimize the initial capital investment required and maximize our potential to generate high operating margins and strong cash flows. We believe that our stores have a relatively small shopping radius, which allows us to profitably concentrate multiple stores within a single market. Our ability to open new stores is dependent upon, among other factors, locating suitable sites and negotiating favorable lease terms.
The strong cash flows generated by our stores allow us to self-fund infrastructure investment and new stores. Over the past five years, cash flows from operating activities have exceeded capital expenditures.
For more information on our results of operations, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 26 of this Form 10-K.
Cost Control. We believe that our substantial buying power and our flexibility in making sourcing decisions contributes to our successful purchasing strategy, which includes targeted merchandise margin goals by category. We also believe our ability to select quality merchandise helps to minimize markdowns. We buy products on an order-by-order basis and have no material long-term purchase contracts or other assurances of continued product supply or guaranteed product cost. No vendor accounted for more than 10% of total merchandise purchased in any of the past five years.
Our supply chain systems continue to provide us with valuable sales information to assist our buyers and improve merchandise allocation to our stores. Controlling our inventory levels has resulted in more efficient distribution and store operations.
Information Systems. We believe that investments in technology help us to increase sales and control costs. Our inventory management system has allowed us to improve the efficiency of our supply chain, improve merchandise flow, increase inventory turnover and control distribution and store operating costs. It is also used to provide information to calculate our estimate of inventory cost under the retail inventory method, which is widely used in the retail industry. Our automatic replenishment system replenishes key items, based on actual store-level sales and inventory.
Point-of-sale data allows us to track sales and inventory by merchandise category at the store level and assists us in planning for future purchases of inventory. We believe that this information allows us to ship the appropriate product to stores at the quantities commensurate with selling patterns. Using this point-of-sale data to plan purchases of inventory has helped us manage our inventory levels.

Corporate Culture and Values. We believe that honesty and integrity, and treating people fairly and with respect are core values within our corporate culture. We believe that running a business, and certainly a public company, carries with it a responsibility to be above reproach when making operational and financial decisions. Our executive management team visits and shops at our stores like every customer, and ideas and individual creativity on the part of our associates are encouraged, particularly from our store managers who know their stores and their customers. We have standards for store displays, merchandise presentation, and store operations. We maintain an open door policy for all associates. Our distribution centers are operated based on objective measures of performance and virtually everyone in our store support centers is available to assist associates in the stores and distribution centers.

Our disclosure committee meets at least quarterly and monitors our internal controls over financial reporting to ensure that our public filings contain discussions about the risks our business faces. We believe that we have the controls in place to be able to certify our financial statements. Additionally, we have complied with the listing requirements for the Nasdaq Stock Market.

Seasonality. For information on the impact of seasonality, see "Item 1A. Risk Factors" beginning on page 12 of this Form 10-K and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 26 of this Form 10-K.

Growth Strategy

Store Openings and Square Footage Growth. The primary factors contributing to our net sales growth have been new store openings, an active store expansion and remodel program, and selective mergers and acquisitions. In the last five years, net sales increased at a compound annual growth rate of 23.6%, including the addition of Family Dollar. We expect that the majority of our future sales growth will come primarily from new store openings in our Dollar Tree and Family Dollar banners and from our store expansion and relocation program.

At January 28, 2012, we operated 4,351 stores in the United States and Canada. At January 30, 2016, we operated 13,626 stores in 48 states and the District of Columbia, as well as 225 stores in Canada. Our selling square footage increased from approximately 37.6 million square feet in January 2012 to 108.4 million square feet in January 2016. Our store growth has resulted from opening new stores and our July 2015 acquisition of more than 8,200 Family Dollar stores.

The following table shows the average selling square footage of our stores and the selling square footage per new store opened over the last five years. Our growth and productivity statistics are reported based on selling square footage because our management believes the use of selling square footage yields a more accurate measure of store productivity.

Year	Number of Stores	Average Selling Square Footage Per Store	Average Selling Square Footage Per New Store Opened
2011	4,351	8,640	8,360
2012	4,671	8,660	8,060
2013	4,992	8,660	8,020
2014	5,367	8,660	8,060
2015	13,851	7,820	7,730

We expect to increase the selling square footage in our stores in the future by opening new stores in underserved markets and strategically increasing our presence in our existing markets via new store openings and store expansions (expansions include store relocations). In fiscal 2016 and beyond, we plan to predominantly open Dollar Tree stores that are approximately 8,000 - 10,000 selling square feet and Family Dollar stores that are approximately 6,000 - 8,000 selling square feet. We believe these store sizes allow us to achieve our objectives in the markets in which we plan to expand.

In addition to new store openings, we plan to continue our Dollar Tree store expansion program to increase our net sales per store and take advantage of market opportunities. We target stores for expansion based on the current sales per selling square foot and changes in market opportunities. Stores targeted for expansion are generally less than 6,000 selling square feet in size. Store expansions generally increase the existing store size by approximately 2,750 selling square feet. At January 30, 2016, approximately 3,243 of our Dollar Tree stores, totaling 63% of our Dollar Tree banner selling square footage, were 8,000 selling square feet or larger.

Since 1995, we have added a total of 695 stores through several mergers and acquisitions, excluding our acquisition of Family Dollar. Our acquisition strategy has been to target companies that have a similar single-price point concept that have shown success in operations or companies that provide a strategic advantage. We evaluate potential acquisition opportunities as they become available. On July 6, 2015, we completed our acquisition of Family Dollar which allowed us to create a diversified company with complementary business models. See "Note 2 - Acquisition" in "Item 8. Financial Statements and Supplementary Data” beginning on page 53 of this Form 10-K.

From time to time, we also acquire the rights to store leases through bankruptcy or other proceedings. We will continue to take advantage of these opportunities as they arise depending upon several factors including their fit within our location and selling square footage size parameters.

Merchandising and Distribution. Expanding our customer base is important to our growth plans. We plan to continue to stock our stores with a compelling mix of ever-changing merchandise that our customers have come to appreciate. Consumable merchandise typically leads to more frequent return trips to our stores resulting in increased sales. The presentation and display of merchandise in our stores are critical to communicating value to our customers and creating a more exciting shopping experience. We believe our approach to visual merchandising results in higher sales volume and an environment that encourages impulse purchases.

A strong and efficient distribution network is critical to our ability to grow and to maintain a low-cost operating structure. In 2015, we began construction on our Cherokee County, South Carolina distribution center, which will be 1.5 million square feet and fully automated. We expect this facility to be operational in the third quarter of 2016. In addition, we are expanding our Stockton, California distribution center by 0.3 million square feet. We expect this project to be completed during the second quarter of 2016. In 2014, we expanded our Joliet, Illinois distribution center to 1.5 million square feet. We are also in the process of enabling our distribution centers to ship merchandise to both Dollar Tree and Family Dollar stores. We expect our first pilot facility to be operational in the third quarter of 2016. We believe our distribution center network is currently capable of supporting approximately $24.1 billion in annual sales in the United States. New distribution sites are strategically located to reduce stem miles, maintain flexibility and improve efficiency in our store service areas. We also are a party to an agreement which provides distribution services from two facilities in Canada.

Our Dollar Tree stores receive approximately 90% of their inventory from our distribution centers via contract carriers and our Family Dollar stores receive approximately 72% of their inventory from our distribution centers. The remaining store inventory, primarily perishable consumable items and other vendor-maintained display items, are delivered directly to our stores from vendors. Our Family Dollar stores receive approximately 16% of their merchandise from McLane Company, Inc. For more information on our distribution center network, see "Item 2. Properties" beginning on page 18 of this Form 10-K.

Competition

Our segment of the retail industry is highly competitive and we expect competition to increase in the future. We operate in the discount retail business, which is currently and is expected to continue to be highly competitive with respect to price, store location, merchandise quality, assortment and presentation and customer service. Our competitors include single-price dollar stores, multi-price dollar stores, mass merchandisers, discount retailers, drug stores, convenience stores, independently-operated discount stores, and a wide variety of other retailers. In addition, several competitors have sections within their stores devoted to "one dollar" price point merchandise, which further increases competition. We believe we differentiate ourselves from other retailers by providing high-value, high-quality, low-cost merchandise in attractively-designed stores that are conveniently located. Our sales and profits could be reduced by increases in competition. There are no significant economic barriers for others to enter our retail sector.

Trademarks

We are the owners of several federal service mark registrations including "Dollar Tree," the "Dollar Tree" logo, the Dollar Tree logo with a “1” and "One Price...One Dollar." In addition, we own a concurrent use registration for "Dollar Bill$" and the related logo. We also acquired the rights to use trade names previously owned by Everything's A Dollar, a former competitor in the $1.00 price point industry. Several trade names were included in the purchase, including the marks "Everything's $1.00 We Mean Everything!" and "Everything's $1.00." With the acquisition of Deals, we became the owners of the trademark "Deal$.” With the acquisition of Dollar Giant, we became the owners of the trademark “Dollar Giant” and others in Canada. With the acquisition of Family Dollar, we became the owners of the trademarks "Family Dollar," "Family Dollar Stores" and other names and designs of certain merchandise sold in Family Dollar stores, such as "Family Gourmet," "Family Pet," "Kidgets" and "Outdoors by Design." We have federal trademark registrations for a variety of private labels that we use to market some of our product lines. Our trademark registrations have various expiration dates; however, assuming that the trademark registrations are properly renewed, they have a perpetual duration.

Employees

We employed approximately 55,300 full-time and 112,500 part-time associates on January 30, 2016. Part-time associates work an average of less than 30 hours per week. The number of part-time associates fluctuates depending on seasonal needs. We consider our relationship with our associates to be good, and we have not experienced significant interruptions of operations due to labor disagreements.

Item 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. Any failure to meet market expectations, including our comparable store sales growth rate, earnings and earnings per share or new store openings, could cause the market price of our stock to decline. You should carefully consider the specific risk factors listed below together with all other information included or incorporated in this report. Any of the following risks may materialize, and additional risks not known to us, or that we now deem immaterial, may arise. In such event, our business, financial condition, results of operations or prospects could be materially adversely affected.

Our profitability is vulnerable to cost increases.

Future increases in costs such as the cost of merchandise, wage and benefit costs, merchandise loss (due to theft, damage, or errors), shipping rates, freight costs, fuel costs and store occupancy costs may reduce our profitability. The minimum wage has increased or is scheduled to increase in multiple states and local jurisdictions and there is a possibility that Congress will increase the federal minimum wage. The Department of Labor is expected to issue regulations this year that may result in fewer of our associates being exempt from overtime pay requirements. In our Dollar Tree segment, we do not raise the sales price of our merchandise to offset cost increases because we are committed to selling primarily at the $1.00 price point to continue to provide value to the customer. We are dependent on our ability to adjust our product assortment, to operate more efficiently or to increase our comparable store net sales in order to offset inflation or other cost increases. We can give no assurance that we will be able to operate more efficiently or increase our comparable store net sales in the future. Although Family Dollar, unlike Dollar Tree, can raise the price of merchandise, customers may buy fewer products because of a higher price. Please see "Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 26 of this Form 10-K for further discussion of the effect of Inflation and Other Economic Factors on our operations.

Integrating Family Dollar’s operations with ours may be more difficult, costly or time consuming than expected and the anticipated benefits, synergies and cost savings of the Acquisition may not be realized.

The success of the Family Dollar acquisition (the “Acquisition”), including anticipated benefits, synergies and cost savings, will depend, in part, on our ability to successfully combine and integrate the businesses and cultures of the Family Dollar segment into our company. It is possible that the integration process will take longer than anticipated, and could result in the loss of key employees, higher than expected costs (including costs incurred with respect to the divested stores and related services), ongoing diversion of management attention, increased competition, the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers, vendors and employees. If we experience difficulties with the integration process, the anticipated benefits of the Acquisition may not be realized fully or at all, or may take longer to realize than expected. In addition, the actual cost savings of the Acquisition could be less than anticipated.

A downturn in economic conditions could impact our sales.

Deterioration in economic conditions, such as those caused by a recession, inflation, higher unemployment, consumer debt levels, cost increases, as well as adverse weather conditions or terrorism, could reduce consumer spending or cause customers to shift their spending to products we either do not sell or do not sell as profitably. Adverse economic conditions could disrupt consumer spending and significantly reduce our sales, decrease our inventory turnover, cause greater markdowns or reduce our profitability due to lower margins.

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

We rely extensively on our computer and technology systems to manage inventory, process credit card and customer transactions and summarize results. Systems may be subject to damage or interruption from power outages, telecommunication failures, computer viruses, security breaches and catastrophic events. If our systems are damaged or fail to function properly, we may incur substantial costs to repair or replace them, may experience loss of critical data and interruptions or delays in our ability to manage inventories or process customer transactions and may receive negative publicity, which could adversely affect our results of operation or business.

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

We have procedures and technology in place to safeguard our customers' debit and credit card information, our associates' private data, suppliers' data, and our business records and intellectual property. Despite these measures, criminals are constantly devising schemes to circumvent safeguards and we may be vulnerable to, and unable to detect and appropriately respond to, data security breaches and data loss, including cyber-security attacks. Other sophisticated retailers have recently suffered serious security breaches. If we experience a data security breach, we could be exposed to negative publicity, government enforcement actions, private litigation, or costly response measures. In addition, our reputation within the business community and with our customers may be affected, which could result in our customers discontinuing the use of debit or credit cards in our stores or not shopping in our stores altogether. This could have an adverse effect on our results of operation or business.

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

Existing store sales growth is critical to good operating results and is dependent on a variety of factors including merchandise quality, relevance and availability, store operations and customer satisfaction. In addition, increased competition could adversely affect our sales. Our highest sales periods are during the Christmas and Easter seasons, and we generally realize a disproportionate amount of our net sales and our operating and net income during the fourth quarter. In anticipation, we stock extra inventory and hire many temporary employees to prepare our stores. A reduction in sales during these periods could adversely affect our operating results, particularly operating and net income, to a greater extent than if a reduction occurred at other times of the year. Untimely merchandise delays due to receiving or distribution problems could have a similar effect. When Easter is observed earlier in the year, the selling season is shorter and, as a result, our sales could be adversely affected. Easter was observed on April 20, 2014, April 5, 2015, and will be observed on March 27, 2016.

Expanding our square footage profitably depends on a number of uncertainties, including our ability to locate, lease, build out and open or expand stores in suitable locations on a timely basis under favorable economic terms. Obtaining an increasing number of profitable stores is an ever increasing challenge. In addition, our expansion is dependent upon third-party developers' abilities to acquire land, obtain financing, and secure necessary permits and approvals. It remains difficult for third party developers to obtain financing for new projects due to the recent turmoil in the financial markets. We also open or expand stores within our established geographic markets, where new or expanded stores may draw sales away from our existing stores. We may not manage our expansion effectively, and our failure to achieve our expansion plans could materially and adversely affect our business, financial condition and results of operations.

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

We are dependent on our vendors to supply merchandise in a timely and efficient manner. If a vendor fails to deliver on its commitments due to financial or other difficulties, we could experience merchandise shortages which could lead to lost sales or increased merchandise costs if alternative sources must be used.

Merchandise imported directly accounts for approximately 41% to 43% of our Dollar Tree segment's total retail value purchases and 22% to 24% of our Family Dollar segment's total retail value purchases. In addition, we believe that a portion of our goods purchased from domestic vendors is imported. China is the source of a substantial majority of our imports. Imported goods are generally less expensive than domestic goods and increase our profit margins. A disruption in the flow of our imported merchandise or an increase in the cost of those goods may significantly decrease our profits. Risks associated with our reliance on imported goods may include disruptions in the flow of or increases in the cost of imported goods because of factors such as:

- raw material shortages, work stoppages, strikes and political unrest;
- an increase in duties or tariffs;
- economic crises and international disputes;
- changes in currency exchange rates or policies and local economic conditions, including inflation in the country of

origin; and
- failure of the United States to maintain normal trade relations with China.

We could encounter disruptions in our distribution network or additional costs in distributing merchandise.
Our success is dependent on our ability to transport merchandise to our distribution centers and then ship it to our stores in a timely and cost-effective manner. We may not anticipate, respond to or control all of the challenges of operating our receiving and distribution systems. Additionally, if a vendor fails to deliver on its commitments, we could experience merchandise shortages that could lead to lost sales or increased costs. Some of the factors that could have an adverse effect on our distribution network or costs are:

- Shipping disruption. Our oceanic shipping schedules may be disrupted or delayed from time to time.
- Shipping costs. We could experience increases in shipping rates imposed by the trans-Pacific ocean carriers. Changes in import duties, import quotas and other trade sanctions could increase our costs.
- Efficient Operations. Distribution centers and other aspects of our distribution network are difficult to operate efficiently and we could experience a reduction in operating efficiency.
- Diesel fuel costs. We have experienced volatility in diesel fuel costs over the past few years.
- Vulnerability to natural or man-made disasters. A fire, explosion or natural disaster at a port or any of our distribution facilities could result in a loss of merchandise and impair our ability to adequately stock our stores. Some facilities are vulnerable to earthquakes, hurricanes or tornadoes.
- Labor disagreement. Labor disagreements, disruptions or strikes may result in delays in the delivery of merchandise to our distribution centers or stores and increase costs.
- War, terrorism and other events. War and acts of terrorism in the United States, the Middle East, or in China or other parts of Asia, where we buy a significant amount of our imported merchandise, could disrupt our supply chain or increase our transportation costs.
- Economic conditions. Suppliers may encounter financial or other difficulties.

Our profitability is affected by the mix of products we sell.
Our gross profit margin could decrease if we increase the proportion of higher cost goods we sell in the future. In recent years, the percentage of our sales from higher cost consumable products has increased and we can give no assurance that this trend will not continue. As a result, our gross profit margin could decrease unless we are able to maintain our current merchandise cost sufficiently to offset any decrease in our product margin percentage. We can give no assurance that we will be able to do so.
In our Family Dollar segment, our success also depends on our ability to select and obtain sufficient quantities of relevant merchandise at prices that allow us to sell such merchandise at profitable and appropriate prices. A sales price that is too high causes products to be less attractive to our customers and our sales at Family Dollar could suffer. We are continuing to implement our everyday low price strategy at Family Dollar to drive customer loyalty and have a strategic pricing team to improve our value and to increase profitability. Inability to successfully implement our pricing strategies at Family Dollar could have a negative effect on our business.
In addition, our Family Dollar segment has a substantial number of private brand items and the number of items has been increasing. We believe our success in maintaining broad market acceptance of our private brands depends on many factors, including our pricing, costs, quality and customer perception. We may not achieve or maintain our expected sales for our private brands and, as a result, our business and results of operations could be adversely impacted. Additionally, the increased number of private brands could negatively impact our existing relationships with our non-private brand suppliers.
Pressure from competitors may reduce our sales and profits.
The retail industry is highly competitive. The marketplace is highly fragmented as many different retailers compete for market share by utilizing a variety of store formats and merchandising strategies. We expect competition to increase in the future. There are no significant economic barriers for others to enter our retail sector. Some of our current or potential competitors have greater financial resources than we do. We cannot guarantee that we will continue to be able to compete successfully against existing or future competitors. Please see "Item 1. Business" beginning on page 6 of this Form 10-K for further discussion of the effect of competition on our operations.
Litigation may adversely affect our business, financial condition and results of operations.
Our business is subject to the risk of litigation involving employees, consumers, suppliers, competitors, shareholders, government agencies, or others through private actions, class actions, governmental investigations, administrative

proceedings, regulatory actions or other litigation. Our products could also cause illness or injury, harm our reputation, and subject us to litigation. For example, we are currently defendants in national and state employment-related class and collective actions, litigation concerning injury from products and a governmental investigation by the Consumer Products Safety Commission.

The outcome of litigation is difficult to assess or quantify. Plaintiffs in these types of lawsuits or proceedings may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss may remain unknown for substantial periods of time. In addition, certain of these matters, if decided adversely to us or settled by us, may result in an expense that may be material to our financial statements as a whole or may negatively affect our operating results if changes to our business operation are required. The cost to defend current and future litigation or proceedings may be significant. There also may be adverse publicity associated with litigation, including litigation related to product or food safety, customer information and environmental or safety requirements, which could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable.

For a discussion of current legal matters, please see "Item 3. Legal Proceedings" beginning on page 21 of this Form 10-K and "Note 5 - Commitments and Contingencies" under the caption "Contingencies" in "Item 8. Financial Statements and Supplementary Data" beginning on page 59 of this Form 10-K. Resolution of these matters, if decided against the Company, could have a material adverse effect on our results of operations, accrued liabilities or cash flows.

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

Our business is subject to a wide array of laws and regulations. The Department of Labor is expected to issue regulations this year that may result in fewer of our associates being exempt from overtime pay requirements. The minimum wage has increased or is scheduled to increase in multiple states and local jurisdictions and there is a possibility that Congress will increase the federal minimum wage. Significant legislative changes, such as the health-care legislation, that impact our relationship with our workforce could increase our expenses and adversely affect our operations. Changes in other regulatory areas, such as consumer credit, privacy and information security, product and food safety, worker safety or environmental protection, among others, could cause our expenses to increase or product recalls. In addition, if we fail to comply with applicable laws and regulations, particularly wage and hour laws, we could be subject to legal risk, including government enforcement action and class action civil litigation, which could adversely affect our results of operations. Changes in tax laws, the interpretation of existing laws, or our failure to sustain our reporting positions on examination could adversely affect our effective tax rate.

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

Our growth and performance is dependent on the skills, experience and contributions of our associates, executives and key personnel. Various factors, including our recent merger, overall labor availability, wage rates, regulatory or legislative impacts, and benefit costs could impact our ability to attract and retain qualified associates at our stores, distribution centers and corporate offices.

Certain provisions in our Articles of Incorporation and Bylaws could delay or discourage a change of control transaction that may be in a shareholder’s best interest.

Our Articles of Incorporation and Bylaws currently contain provisions that may delay or discourage a takeover attempt that a shareholder might consider in his best interest. These provisions, among other things:

•provide that only the Board of Directors, chairman or president may call special meetings of the shareholders;

•establish certain advance notice procedures for nominations of candidates for election as directors and for shareholder proposals to be considered at shareholders’ meetings; and

•permit the Board of Directors, without further action of the shareholders, to issue and fix the terms of preferred stock, which may have rights senior to those of the common stock.

However, we believe that these provisions allow our Board of Directors to negotiate a higher price in the event of a takeover attempt which would be in the best interest of our shareholders.

Our substantial indebtedness could adversely affect our financial condition, limit our ability to obtain additional financing, restrict our operations and make us more vulnerable to economic downturns and competitive pressures.

In connection with the Acquisition, we substantially increased our indebtedness, which could adversely affect our ability to fulfill our obligations and have a negative impact on our financing options and liquidity position. As of January 30, 2016, our total indebtedness is $7,465.5 million. In addition, we have $1,250.0 million of additional borrowing availability under our new revolving credit facility, less amounts outstanding for letters of credit totaling

$123.0 million.

Our high level of debt could have significant consequences, including the following:

- limiting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or

other general corporate purposes;
•requiring a substantial portion of our cash flows to be dedicated to debt service payments, instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
•limiting our ability to refinance our indebtedness on terms acceptable to us or at all;
•imposing restrictive covenants on our operations;
•placing us at a competitive disadvantage to competitors carrying less debt; and
•making us more vulnerable to economic downturns and limiting our ability to withstand competitive pressures.
In addition, our credit ratings impact the cost and availability of future borrowings and, accordingly, our cost of capital. Our ratings reflect the opinions of the ratings agencies of our financial strength, operating performance and ability to meet our debt obligations. There can be no assurance that we will achieve a particular rating or maintain a particular rating in the future.
We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.
Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to fund our day-to-day operations or to pay the principal, premium, if any, and interest on our indebtedness.
If our cash flows and capital resources are insufficient to fund our debt service obligations and other cash requirements, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service obligations. The agreements that govern our indebtedness restrict (a) our ability to dispose of assets and use the proceeds from any such dispositions and (b) our ability to raise debt capital to be used to repay our indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.
Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our obligations.
If we cannot make scheduled payments on our debt, we will be in default and, as a result, holders of the notes (and lenders under any of our existing and future indebtedness) could declare all outstanding principal and interest to be due and payable, the lenders under the credit facilities could terminate their commitments to loan money, our secured lenders could foreclose against the assets securing such borrowings and we could be forced into bankruptcy or liquidation, in each case, which could result in your losing your investment.
The terms of the agreements governing our indebtedness may restrict our current and future operations, particularly our ability to respond to changes or to pursue our business strategies, and could adversely affect our capital resources, financial condition and liquidity.
The agreements that govern our indebtedness contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interests, including, among other things, restrictions on our ability to:
•incur, assume or guarantee additional indebtedness;
•declare or pay dividends or make other distributions with respect to, or purchase or otherwise acquire or retire for value, equity interests;
•make principal payments on, or redeem or repurchase, subordinated debt;
•make loans, advances or other investments;
•incur liens;
•sell or otherwise dispose of assets, including capital stock of subsidiaries;

•enter into sale and lease-back transactions;
•consolidate or merge with or into, or sell all or substantially all of our assets to, another person; and
•enter into transactions with affiliates.

In addition, certain of these agreements require us to comply with certain financial maintenance covenants. Our ability to satisfy these financial maintenance covenants can be affected by events beyond our control, and we cannot assure you that we will meet them.

A breach of the covenants under these agreements could result in an event of default under the applicable indebtedness, which, if not cured or waived, could result in us having to repay our borrowings before their due dates. Such default may allow the debt holders to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. If we are forced to refinance these borrowings on less favorable terms or if we were to experience difficulty in refinancing the debt prior to maturity, our results of operations or financial condition could be materially affected. In addition, an event of default under our credit facilities may permit the lenders under our credit facilities to terminate all commitments to extend further credit under such credit facilities. Furthermore, if we are unable to repay the amounts due and payable under our credit facilities, those lenders may be able to proceed against the collateral granted to them to secure that indebtedness. In the event our lenders or holders of notes accelerate the repayment of such borrowings, we cannot assure you that we will have sufficient assets to repay such indebtedness.

As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively, take advantage of new business opportunities or grow in accordance with our plans.

Our variable-rate indebtedness subjects us to interest rate risk, which could cause our annual debt service obligations to increase significantly.

Certain of our indebtedness, including borrowings under our new revolving credit facility, is subject to variable rates of interest and exposes us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income would decrease. An increase (decrease) of 1.0% on the interest rate would result in an increase (decrease) of $25.2 million in annual interest expense. Although we may enter into interest rate swaps, involving the exchange of floating- for fixed-rate interest payments, to reduce interest rate volatility, we cannot assure you we will be able to do so.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Stores

As of January 30, 2016, we operated 13,851 stores in 48 states and the District of Columbia, and five Canadian provinces as detailed below:

United States	Dollar Tree	Family Dollar	Total
Alabama	117	172	289
Arizona	108	152	260
Arkansas	65	115	180
California	536	123	659
Colorado	88	125	213
Connecticut	57	54	111
Delaware	29	26	55
District of Columbia	3	3	6
Florida	442	584	1,026
Georgia	220	386	606
Idaho	30	45	75
Illinois	226	218	444
Indiana	122	205	327
Iowa	41	33	74
Kansas	45	43	88
Kentucky	91	208	299
Louisiana	96	299	395
Maine	29	63	92
Maryland	109	90	199
Massachusetts	109	92	201
Michigan			