United States Short Oil Fund, LP
Form 10-Q
November 14, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2011.**

OR

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .**

Commission File Number: 001-34371

United States Short Oil Fund, LP

(Exact name of registrant as specified in its charter)

Delaware	**20-2939256**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1320 Harbor Bay Parkway, Suite 145

Alameda, California 94502

(Address of principal executive offices) (Zip code)

(510) 522-9600

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the 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. x Yes ¨ 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x 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	x (Do not check if a smaller reporting company)	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 x No

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Part I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements.

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United States Short Oil Fund, LP

Condensed Statements of Financial Condition

At September 30, 2011 (Unaudited) and December 31, 2010

	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents (Note 5)	$ 9,451,271	$ 7,473,514
Equity in UBS Securities LLC trading accounts:		
Cash	3,205,304	844,680
Unrealized gain (loss) on open commodity futures contracts	1,220,180	(205,860)
Receivable for General Partner (Note 3)	121,023	175,447
Dividend receivable	25	201
Other assets	67	831
Total assets	$ 13,997,870	$ 8,288,813
Liabilities and Partners Capital		
General Partner management fees payable (Note 3)	$ 6,367	$ 4,217
Brokerage commissions payable	507	342
Other liabilities	131,657	200,453
Total liabilities	138,531	205,012
Commitments and Contingencies (Notes 3, 4 and 5)		
Partners Capital		
General Partner		
Limited Partners	13,859,339	8,083,801
Total Partners Capital	13,859,339	8,083,801
Total liabilities and partners capital	$ 13,997,870	$ 8,288,813
Limited Partners units outstanding	300,000	200,000
Net asset value per unit	$ 46.20	$ 40.42
Market value per unit	$ 46.42	$ 40.42

See accompanying notes to condensed financial statements.

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United States Short Oil Fund, LP

Condensed Schedule of Investments (Unaudited)

At September 30, 2011

	Number of Contracts	Gain on Open Commodity Contracts	% of Partners Capital
Open Futures Contracts - Short			
United States Contracts			
NYMEX Crude Oil Futures CL November 2011 contracts, expiring October 2011	175	$ 1,220,180	8.80

	Principal Amount	Market Value	
Cash Equivalents			
United States - Money Market Funds			
Fidelity Institutional Government Portfolio - Class I	$ 1,003,367	$ 1,003,367	7.24
Goldman Sachs Financial Square Funds - Government Fund - Class SL	1,002,268	1,002,268	7.23
Morgan Stanley Institutional Liquidity Fund - Government Portfolio	2,002,290	2,002,290	14.45
Total Cash Equivalents		$ 4,007,925	28.92

See accompanying notes to condensed financial statements.

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United States Short Oil Fund, LP

Condensed Statements of Operations (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Income				
Gain (loss) on trading of commodity futures contracts:				
Realized gain (loss) on closed positions	$ 1,292,410	$ (290,130)	$ 1,303,780	$ 2,340,970
Change in unrealized gain (loss) on open positions	776,050	(868,990)	1,426,040	200,880
Dividend income	114	2,927	508	4,916
Interest income	373	241	713	1,134
Other income		1,000	5,000	6,000
Total income (loss)	2,068,947	(1,154,952)	2,736,041	2,553,900
Expenses				
General Partners management fees (Note 3)	18,891	31,642	42,361	83,019
Brokerage commissions	3,754	6,555	8,321	19,438
Other expenses	42,199	14,467	134,020	176,418
Total expenses	64,844	52,664	184,702	278,875
Expense waiver (Note 3)	(36,471)	(4,852)	(121,023)	(149,627)
Net expenses	28,373	47,812	63,679	129,248
Net income (loss)	$ 2,040,574	$ (1,202,764)	$ 2,672,362	$ 2,424,652
Net income (loss) per limited partnership unit	$ 6.80	$ (1.99)	$ 5.78	$ 1.99
Net income (loss) per weighted average limited partnership unit	$ 6.80	$ (2.75)	$ 11.19	$ 6.02
Weighted average limited partnership units outstanding	300,000	438,043	238,828	402,930

See accompanying notes to condensed financial statements.

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United States Short Oil Fund, LP

Condensed Statement of Changes in Partners Capital (Unaudited)

For the nine months ended September 30, 2011

	Limited Partners General Partner		Limited Partners Limited Partners		Limited Partners Total
Balances, at December 31, 2010	$	$	8,083,801	$	8,083,801
Addition of 300,000 partnership units			11,325,902		11,325,902
Redemption of 200,000 partnership units			(8,222,726)		(8,222,726)
Net income			2,672,362		2,672,362
Balances, at September 30, 2011	$	$	13,859,339	$	13,859,339
Net Asset Value Per Unit:					
At December 31, 2010	$ 40.42				
At September 30, 2011	$ 46.20				

See accompanying notes to condensed financial statements.

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United States Short Oil Fund, LP

Condensed Statements of Cash Flows (Unaudited)

For the nine months ended September 30, 2011 and 2010

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Cash Flows from Operating Activities:		
Net income	$ 2,672,362	$ 2,424,652
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Increase in commodity futures trading account - cash	(2,360,624)	(331,752)
Unrealized gain on futures contracts	(1,426,040)	(200,880)
Decrease in receivable from General Partner	54,424	56,817
(Increase) decrease in dividend receivable and other assets	940	(605)
Increase in General Partner management fees payable	2,150	2,495
Increase in brokerage commissions payable	165	220
Decrease in other liabilities	(68,796)	(41,355)
Net cash provided by (used in) operating activities	(1,125,419)	1,909,592
Cash Flows from Financing Activities:		
Addition of partnership units	11,325,902	22,638,937
Redemption of partnership units	(8,222,726)	(19,869,173)
Net cash provided by financing activities	3,103,176	2,769,764
Net Increase in Cash and Cash Equivalents	1,977,757	4,679,356
Cash and Cash Equivalents, beginning of period	7,473,514	11,690,132
Cash and Cash Equivalents, end of period	$ 9,451,271	$ 16,369,488

See accompanying notes to condensed financial statements.

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United States Short Oil Fund, LP

Notes to Condensed Financial Statements

For the period ended September 30, 2011 (Unaudited)

NOTE 1 ORGANIZATION AND BUSINESS

The United States Short Oil Fund, LP (USSO) was organized as a limited partnership under the laws of the state of Delaware on June 30, 2008. USSO is a commodity pool that issues limited partnership units (units) that may be purchased and sold on the NYSE Arca, Inc. (the NYSE Arca). USSO will continue in perpetuity, unless terminated sooner upon the occurrence of one or more events as described in its Amended and Restated Agreement of Limited Partnership dated as of May 18, 2009 (the LP Agreement). The investment objective of USSO is for the daily changes in percentage terms of its units net asset value (NAV) to inversely reflect the daily changes in percentage terms of the spot price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the changes in the price of the futures contract for light, sweet crude oil traded on the New York Mercantile Exchange (the NYMEX) that is the near month contract to expire, except when the near month contract is within two weeks of expiration, in which case the futures contract will be the next month contract to expire, less USSO s expenses. It is not the intent of USSO to be operated in a fashion such that the per unit NAV will equal, in dollar terms, the spot price of light, sweet crude oil or any particular futures contract based on light, sweet crude oil. United States Commodity Funds LLC (USCF) believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in Futures Contracts (as defined below) and Other Crude Oil-Related Investments (as defined below). USSO accomplishes its objective through investments in short positions in futures contracts for light, sweet crude oil and other types of crude oil, heating oil, gasoline, natural gas and other petroleum-based fuels that are traded on the NYMEX, ICE Futures or other U.S. and foreign exchanges (collectively, Futures Contracts) and other oil-related investments such as cash-settled options on Futures Contracts, forward contracts for oil, cleared swap contracts and over-the-counter transactions that are based on the price of crude oil, heating oil, gasoline, natural gas and other petroleum-based fuels, Futures Contracts and indices based on the foregoing (collectively, Other Crude Oil-Related Investments). As of September 30, 2011, USSO held short 175 Futures Contracts traded on the NYMEX.

USSO commenced investment operations on September 24, 2009 and has a fiscal year ending on December 31. USCF is responsible for the management of USSO. USCF is a member of the National Futures Association (the NFA) and became a commodity pool operator registered with the Commodity Futures Trading Commission (the CFTC) effective December 1, 2005. USCF is also the general partner of the United States Oil Fund, LP (USOF), the United States Natural Gas Fund, LP (USNG), the United States 12 Month Oil Fund, LP (US12OF), the United States Gasoline Fund, LP (UGA) and the United States Heating Oil Fund, LP (USHO), which listed their limited partnership units on the American Stock Exchange (the AMEX) under the ticker symbols USO on April 10, 2006, UNG on April 18, 2007, USL on December 6, 200 UGA on February 26, 2008 and UHN on April 9, 2008, respectively. As a result of the acquisition of the AMEX by NYSE Euronext, each of USOF s, USNG s, US12OF s, UGA s and USHO s units commenced trading on the NYSE Arca on November 25, 2008. USCF is also the general partner of the United States 12 Month Natural Gas Fund, LP (US12NG) and the United States Brent Oil Fund, LP (USBO), which listed their limited partnership units on the NYSE Arca under the ticker symbols UNL on November 18, 2009 and BNO on June 2, 2010, respectively. USCF is also the sponsor of the United States Commodity Index Fund (USCI), the United States Agriculture Index Fund (USAG), the United States Copper Index Fund (CPER) and the United States Metals Index Fund (USMI), each a series of the United States Commodity Index Funds Trust. USCI listed its units on the NYSE Arca under the ticker symbol USCI on August 10, 2010. CPER will be listing its units on the NYSE Arca on November 15, 2011. USAG and USMI are not listed on the NYSE Arca as of the filing of this quarterly report on Form 10-Q. USCF has also filed registration statements to register units of the United States Sugar Fund, the United States Natural Gas Double Inverse Fund, the United States Gasoil Fund and the United States Asian Commodities Baskets Fund, each a series of the United States Commodity Funds Trust I.

USSO issues units to certain authorized purchasers (Authorized Purchasers) by offering baskets consisting of 100,000 units (Creation Baskets) through ALPS Distributors, Inc., as the marketing agent (the Marketing Agent). The purchase price for a Creation Basket is based upon the NAV of a unit calculated shortly after the close of the core trading session on the NYSE Arca on the day the order to create the basket is properly received.

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From July 1, 2011 to December 31, 2011, Authorized Purchasers pay USSO a $350 fee for each order placed to create one or more Creation Baskets or to redeem one or more baskets (Redemption Baskets), consisting of 100,000 units; prior to July 1, 2011, this fee was $1,000. Units may be purchased or sold on a nationally recognized securities exchange in smaller increments than a Creation Basket or Redemption Basket. Units purchased or sold on a nationally recognized securities exchange are not purchased or sold at the NAV of USSO but rather at market prices quoted on such exchange.

In September 2009, USSO initially registered 25,000,000 units on Form S-1 with the U.S. Securities and Exchange Commission (the SEC). On September 24, 2009, USSO listed its units on the NYSE Arca under the ticker symbol DNO . On that day, USSO established its initial NAV by setting the price at $50.00 per unit and issued 200,000 units in exchange for $10,000,000. USSO also commenced investment operations on September 24, 2009, by taking short positions in Futures Contracts traded on the NYMEX based on light, sweet crude oil. As of September 30, 2011, USSO had registered a total of 25,000,000 units.

The accompanying unaudited condensed financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the SEC and, therefore, do not include all information and footnote disclosure required under accounting principles generally accepted in the United States of America (GAAP). The financial information included herein is unaudited; however, such financial information reflects all adjustments, consisting only of normal recurring adjustments which are, in the opinion of USCF, necessary for the fair presentation of the condensed financial statements for the interim period.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Commodity futures contracts, forward contracts, physical commodities, and related options are recorded on the trade date. All such transactions are recorded on the identified cost basis and marked to market daily. Unrealized gains or losses on open contracts are reflected in the condensed statement of financial condition and represent the difference between the original contract amount and the market value (as determined by exchange settlement prices for futures contracts and related options and cash dealer prices at a predetermined time for forward contracts, physical commodities, and their related options) as of the last business day of the year or as of the last date of the condensed financial statements. Changes in the unrealized gains or losses between periods are reflected in the condensed statement of operations USSO earns interest on its assets denominated in U.S. dollars on deposit with the futures commission merchant at the 90-day Treasury bill rate. In addition, USSO earns income on funds held at the custodian at prevailing market rates earned on such investments.

Brokerage Commissions

Brokerage commissions on all open commodity futures contracts are accrued on a full-turn basis.

Income Taxes

USSO is not subject to federal income taxes; each partner reports his/her allocable share of income, gain, loss deductions or credits on his/her own income tax return.

In accordance with GAAP, USSO is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any tax related appeals or litigation processes, based on the technical merits of the position. USSO files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states. USSO is not subject to income tax return examinations by major taxing authorities for years before 2008 (year of inception). The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized results in USSO recording a tax liability that reduces net assets. However, USSO s conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. USSO recognizes interest accrued related to unrecognized tax benefits and penalties related to unrecognized tax benefits in income tax fees payable, if assessed. No interest expense or penalties have been recognized as of and for the period ended September 30, 2011.

Creations and Redemptions

Authorized Purchasers may purchase Creation Baskets or redeem Redemption Baskets only in blocks of 100,000 units at a price equal to the NAV of the units calculated shortly after the close of the core trading session on the NYSE Arca on the day the order is placed.

USSO receives or pays the proceeds from units sold or redeemed within three business days after the trade date of the purchase or redemption. The amounts due from Authorized Purchasers are reflected in USSO s condensed statement of financial condition as receivable for units sold, and amounts payable to Authorized Purchasers upon redemption are reflected as payable for units redeemed.

Partnership Capital and Allocation of Partnership Income and Losses

Profit or loss shall be allocated among the partners of USSO in proportion to the number of units each partner holds as of the close of each month. USCF may revise, alter or otherwise modify this method of allocation as described in the LP Agreement.

Calculation of Net Asset Value

USSO s NAV is calculated on each NYSE Arca trading day by taking the current market value of its total assets, subtracting any liabilities and dividing the amount by the total number of units issued and outstanding. USSO uses the closing price for the contracts on the relevant exchange on that day to determine the value of contracts held on such exchange.

Net Income (Loss) per Unit

Net income (loss) per unit is the difference between the NAV per unit at the beginning of each period and at the end of each period. The weighted average number of units outstanding was computed for purposes of disclosing net income (loss) per weighted average unit. The weighted average units are equal to the number of units outstanding at the end of the period, adjusted proportionately for units added and redeemed based on the amount of time the units were outstanding during such period. There were no units held by USCF at September 30, 2011.

Offering Costs

Offering costs incurred in connection with the registration of additional units after the initial registration of units are borne by USSO. These costs include registration fees paid to regulatory agencies and all legal, accounting, printing and other expenses associated with such offerings. These costs are accounted for as a deferred charge and thereafter amortized to expense over twelve months on a straight-line basis or a shorter period if warranted.

Cash Equivalents

Cash equivalents include money market funds and overnight deposits or time deposits with original maturity dates of three months or less.

Reclassification

Certain amounts in the accompanying condensed financial statements were reclassified to conform with the current presentation.

Use of Estimates

The preparation of condensed financial statements in conformity with GAAP requires USCF to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed financial statements, and the reported amounts of the revenue and expenses during the reporting period. Actual results may differ from those estimates and assumptions.

NOTE 3 FEES PAID BY THE FUND AND RELATED PARTY TRANSACTIONS

USCF Management Fee

Under the LP Agreement, USCF is responsible for investing the assets of USSO in accordance with the objectives and policies of USSO. In addition, USCF has arranged for one or more third parties to provide administrative, custody, accounting, transfer agency and other necessary services to USSO. For these services, USSO is contractually obligated to pay USCF a fee, which is paid monthly, equal to 0.60% per annum of average daily net assets.

Ongoing Registration Fees and Other Offering Expenses

USSO pays all costs and expenses associated with the ongoing registration of its units subsequent to the initial offering. These costs include registration or other fees paid to regulatory agencies in connection with the offer and sale of units, and all legal, accounting, printing and other expenses associated with such offer and sale. For the nine months ended September 30, 2011 and 2010, USSO did not incur any registration fees or other offering expenses.

Directors Fees and Expenses

USSO is responsible for paying its portion of the directors and officers liability insurance of all affiliated funds for which USCF serves as general partner or sponsor (all affiliated funds including USCI, USAG, CPER and USMI) and the fees and expenses of the independent directors who also serve as audit committee members of those affiliated USCF funds organized as limited partnerships and, as of July 8, 2011, those affiliated funds organized as a series of a Delaware statutory trust. USSO shares the fees and expenses with each affiliated fund, as described above, based on the relative assets of each fund computed on a daily basis. These fees and expenses for the year ending December 31, 2011 are estimated to be a total of $540,000 for all affiliated funds. Effective as of April 1, 2010, USSO became responsible for paying its portion of any payments that may become due to the independent directors pursuant to the deferred compensation agreements entered into between the independent directors, USCF and the affiliated funds, except USCI, USAG, USMI and CPER.

Licensing Fees

As discussed in Note 4 below, USSO entered into a licensing agreement with the NYMEX on May 22, 2009, as amended on October 20, 2011. Pursuant to the agreement, up to October 19, 2011, USSO and the affiliated funds managed by USCF, other than USBO, USCI, USMI, CPER and USAG, paid a licensing fee that was equal to 0.04% for the first $1,000,000,000 of combined assets of the funds and 0.02% for combined assets above $1,000,000,000. On and after October 20, 2011, USSO and the affiliated funds managed by USCF, other than USBO, USCI, USMI, CPER and USAG, pay a licensing fee that is equal to 0.015% on all assets. During the nine months ended September 30, 2011 and 2010, USSO incurred $1,791 and $3,296, respectively, under this arrangement. *See Note 9 below*.

Investor Tax Reporting Cost

The fees and expenses associated with USSO s audit expenses and tax accounting and reporting requirements are paid by USSO. These costs are estimated to be $45,000 for the year ending December 31, 2011.

Other Expenses and Fees and Expense Waivers

In addition to the fees described above, USSO pays all brokerage fees and other expenses in connection with the operation of USSO, excluding costs and expenses paid by USCF as outlined in Note 4 below. USCF, though under no obligation to do so, agreed to pay certain costs for tax reporting and audit expenses normally borne by USSO, to the extent that such expenses exceed 0.15% (15 basis points) of USSO s NAV, on an annualized basis, through at least December 31, 2011. USCF has no obligation to continue such payments into subsequent periods.

NOTE 4 CONTRACTS AND AGREEMENTS

USSO is party to a marketing agent agreement, dated as of June 8, 2009, as amended from time to time, with the Marketing Agent and USCF, whereby the Marketing Agent provides certain marketing services for USSO as outlined in the agreement. The fee of the Marketing Agent, which is borne by USCF, is equal to 0.06% on USSO s assets up to $3 billion; and 0.04% on USSO s assets in excess of $3 billion.

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The above fee does not include the following expenses, which are also borne by USCF: the cost of placing advertisements in various periodicals; web construction and development; or the printing and production of various marketing materials.

USSO is also party to a custodian agreement, dated October 7, 2008, as amended from time to time, with Brown Brothers Harriman & Co. (BBH&Co.) and USCF, whereby BBH&Co. holds investments on behalf of USSO. USCF pays the fees of the custodian, which are determined by the parties from time to time. In addition, USSO is party to an administrative agency agreement, dated October 7, 2008, as amended from time to time, with USCF and BBH&Co., whereby BBH&Co. acts as the administrative agent, transfer agent and registrar for USSO. USCF also pays the fees of BBH&Co. for its services under such agreement and such fees are determined by the parties from time to time.

Currently, USCF pays BBH&Co. for its services, in the foregoing capacities, a minimum amount of $75,000 annually for its custody, fund accounting and fund administration services rendered to USSO and each of the affiliated funds managed by USCF, as well as a $20,000 annual fee for its transfer agency services. In addition, USCF pays BBH&Co. an asset-based charge of: (a) 0.06% for the first $500 million of USSO s, USOF s, USNG s, US12OF s, UGA s, USHO s, US12NG s, USBO s, USCI s, USAG s, USMI s and CPER s combined net assets, (b) 0.0465 USSO s, USOF s, USNG s, US12OF s, UGA s, USHO s, US12NG s, USBO s, USCI s, USAG s, USMI s and CPER s combined net assets grea $500 million but less than $1 billion, and (c) 0.035% once USSO s, USOF s, USNG s, US12OF s, UGA s, USHO s, US12NG s, USBO s, USCI USAG s, USMI s and CPER s combined net assets exceed $1 billion. The annual minimum amount will not apply if the asset-based charge for all accounts in the aggregate exceeds $75,000. USCF also pays transaction fees ranging from $7 to $15 per transaction.

USSO has entered into a brokerage agreement with UBS Securities LLC (UBS Securities). The agreement requires UBS Securities to provide services to USSO in connection with the purchase and sale of Futures Contracts and Other Crude Oil-Related Investments that may be purchased and sold by or through UBS Securities for USSO s account. In accordance with the agreement, UBS Securities charges USSO commissions of approximately $7 to $15 per round-turn trade, including applicable exchange and NFA fees for Futures Contracts and options on Futures Contracts.

USSO and the NYMEX entered into a licensing agreement on May 22, 2009, as amended on October 20, 2011, whereby USSO was granted a non-exclusive license to use certain of the NYMEX s settlement prices and service marks. Under the licensing agreement, USSO and the affiliated funds managed by USCF, other than USBO, USCI, USMI, CPER and USAG, pay the NYMEX an asset-based fee for the license, the terms of which are described in Note 3. USSO expressly disclaims any association with the NYMEX or endorsement of USSO by the NYMEX and acknowledges that NYMEX and New York Mercantile Exchange are registered trademarks of the NYMEX. *See Note 9 below*.

NOTE 5 FINANCIAL INSTRUMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES

USSO engages in the trading of futures contracts and options on futures contracts and may engage in cleared swaps (collectively, derivatives). USSO is exposed to both market risk, which is the risk arising from changes in the market value of the contracts, and credit risk, which is the risk of failure by another party to perform according to the terms of a contract.

USSO may enter into futures contracts, options on futures contracts and cleared swaps to gain exposure to changes in the value of an underlying commodity. A futures contract obligates the seller to deliver (and the purchaser to accept) the future delivery of a specified quantity and type of a commodity at a specified time and place. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. The contractual obligations of a buyer or seller may generally be satisfied by taking or making physical delivery of the underlying commodity or by making an offsetting sale or purchase of an identical futures contract on the same or linked exchange before the designated date of delivery.

The purchase and sale of futures contracts, options on futures contracts and cleared swaps require margin deposits with a futures commission merchant. Additional deposits may be necessary for any loss on contract value. The Commodity Exchange Act requires a futures commission merchant to segregate all customer transactions and assets from the futures commission merchant s proprietary activities.

Futures contracts and cleared swaps involve, to varying degrees, elements of market risk (specifically commodity price risk) and exposure to loss in excess of the amount of variation margin. The face or contract amounts reflect the extent of the total exposure USSO has in the particular classes of instruments. Additional risks associated with the use of futures contracts are an imperfect correlation between movements in the price of the futures contracts and the market value of the underlying securities and the possibility of an illiquid market for a futures contract.

All of the futures contracts held by USSO were exchange-traded through September 30, 2011. The risks associated with exchange-traded contracts are generally perceived to be less than those associated with over-the-counter transactions since, in over-the-counter transactions, a party must rely solely on the credit of its respective individual counterparties. However, in the future, if USSO were to enter into non-exchange traded contracts, it would be subject to the credit risk associated with counterparty non-performance. The credit risk from counterparty non-performance associated with such instruments is the net unrealized gain, if any, on the transaction. USSO has credit risk under its futures contracts since the sole counterparty to all domestic and foreign futures contracts is the clearinghouse for the exchange on which the relevant contracts are traded. In addition, USSO bears the risk of financial failure by the clearing broker.

USSO s cash and other property, such as U.S. Treasuries, deposited with a futures commission merchant are considered commingled with all other customer funds, subject to the futures commission merchant s segregation requirements. In the event of a futures commission merchant s insolvency, recovery may be limited to a pro rata share of segregated funds available. It is possible that the recovered amount could be less than the total of cash and other property deposited. The insolvency of a futures commission merchant could result in the complete loss of USSO s assets posted with that futures commission merchant; however, the vast majority of USSO s assets are held in U.S. Treasuries, cash and/or cash equivalents with USSO s custodian and would not be impacted by the insolvency of a futures commission merchant. Also, the failure or insolvency of USSO s custodian could result in a substantial loss of USSO s assets.

USCF invests a portion of USSO s cash in money market funds that seek to maintain a stable NAV. USSO is exposed to any risk of loss associated with an investment in such money market funds. USCF holds cash deposits with its custodian. Pursuant to a written agreement with BBH&Co., uninvested overnight cash balances are swept to offshore branches of U.S. regulated and domiciled banks located in Toronto, Canada, London, United Kingdom, Grand Cayman, Cayman Islands and Nassau, Bahamas, which are subject to U.S. regulation and regulatory oversight. As of September 30, 2011 and December 31, 2010, USSO held cash deposits and investments in money market funds in the amounts of $12,656,575 and $8,318,194, respectively. This amount is subject to loss should USSO s custodian cease operations.

For derivatives, risks arise from changes in the market value of the contracts. Theoretically, USSO is exposed to market risk equal to the value of futures contracts purchased and unlimited liability on such contracts sold short. As both a buyer and a seller of options, USSO pays or receives a premium at the outset and then bears the risk of unfavorable changes in the price of the contract underlying the option.

USSO s policy is to continuously monitor its exposure to market and counterparty risk through the use of a variety of financial, position and credit exposure reporting controls and procedures. In addition, USSO has a policy of requiring review of the credit standing of each broker or counterparty with which it conducts business.

The financial instruments held by USSO are reported in its condensed statement of financial condition at market or fair value, or at carrying amounts that approximate fair value, because of their highly liquid nature and short-term maturity.

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NOTE 6 FINANCIAL HIGHLIGHTS

The following table presents per unit performance data and other supplemental financial data for the nine months ended September 30, 2011 and 2010 for the unitholders. This information has been derived from information presented in the condensed financial statements.

	For the nine months ended September 30, 2011 (Unaudited)	For the nine months ended September 30, 2010 (Unaudited)
Per Unit Operating Performance:		
Net asset value, beginning of period	$ 40.42	$ 43.99
Total income	6.05	2.31
Total expenses	(0.27)	(0.32)
Net increase in net asset value	5.78	1.99
Net asset value, end of period	$ 46.20	$ 45.98
Total Return	14.30 %	4.52 %
Ratios to Average Net Assets		
Total income	28.99 %	13.81 %
Management fees*	0.60 %	0.60 %
Total expenses excluding management fees*	2.02 %	1.42 %
Expenses waived*	(1.72)%	(1.08)%
Net expenses excluding management fees*	0.30 %	0.34 %
Net income	28.31 %	13.11 %

* Annualized

Total returns are calculated based on the change in value during the period. An individual unitholder s total return and ratio may vary from the above total returns and ratios based on the timing of contributions to and withdrawals from USSO.

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS

USSO values its investments in accordance with Accounting Standards Codification 820 Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. The changes to past practice resulting from the application of ASC 820 relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurement. ASC 820 establishes a fair value hierarchy that distinguishes between: (1) market participant assumptions developed based on market data obtained from sources independent of USSO (observable inputs) and (2) USSO s own assumptions about market participant assumptions developed based on the best information available under the circumstances (unobservable inputs). The three levels defined by the ASC 820 hierarchy are as follows:

Level I Quoted prices (unadjusted) in active markets for *identical* assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level II Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. Level II assets include the following: quoted prices for *similar* assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

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Level III Unobservable pricing input at the measurement date for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available.

In some instances, the inputs used to measure fair value might fall within different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest input level that is significant to the fair value measurement in its entirety.

The following table summarizes the valuation of USSO s securities at December 31, 2010 using the fair value hierarchy:

At December 31, 2010	**Total**	**Level I**	**Level II**	**Level III**
Short-Term Investments	$ 7,007,241	$ 7,007,241	$	$
Exchange-Traded Futures Contracts				
United States Contracts	(205,860)	(205,860)		

During the year ended December 31, 2010, there were no significant transfers between Level I and Level II.

The following table summarizes the valuation of USSO s securities at September 30, 2011 using the fair value hierarchy:

At September 30, 2011	**Total**	**Level I**	**Level II**	**Level III**
Short-Term Investments	$ 4,007,925	$ 4,007,925	$	$
Exchange-Traded Futures Contracts				
United States Contracts	1,220,180	1,220,180		

During the nine months ended September 30, 2011, there were no significant transfers between Level I and Level II.

Effective January 1, 2009, USSO adopted the provisions of Accounting Standards Codification 815 Derivatives and Hedging, which require presentation of qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts and gains and losses on derivatives.

Fair Value of Derivative Instruments

Derivatives not Accounted for as Hedging Instruments	**Condensed Statement of Financial Condition Location**	**Fair Value At September 30, 2011**	**Fair Value At December 31, 2010**
Futures - Commodity Contracts	Assets	$ 1,220,180	$ (205,860)

The Effect of Derivative Instruments on the Condensed Statements of Operations

		For the nine months ended September 30, 2011		**For the nine months ended September 30, 2010**	
Derivatives not Accounted for as Hedging Instruments	**Location of Gain or (Loss) on Derivatives**	**Realized Gain or (Loss) on Derivatives Recognized in Income**	**Change in Unrealized Gain or (Loss) Recognized in Income**	**Realized Gain or (Loss) on Derivatives Recognized in Income**	**Change in Unrealized Gain or (Loss) Recognized in Income**

	Recognized in Income				
Futures - Commodity Contracts	Realized gain on closed positions	$ 1,303,780		$ 2,340,970	
	Change in unrealized gain on open positions		$ 1,426,040		$ 200,880

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NOTE 8 RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. ASU No. 2011-04 clarifies existing requirements for measuring fair value and for disclosure about fair value measurements in converged guidance of the FASB and the International Accounting Standards Board. The amendments are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application by public entities is not permitted. Nonpublic entities may apply the amendments early, but no earlier than for interim periods beginning after December 15, 2011. The implementation of ASU No. 2011-04 is not expected to have a material impact on USSO s financial statements.

In January 2010, FASB issued ASU No. 2010-06 Improving Disclosures about Fair Value Measurements. ASU No. 2010-06 clarifies existing disclosure and requires additional disclosures regarding fair value measurements. Effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years, entities will need to disclose information about purchases, sales, issuances and settlements of Level 3 securities on a gross basis, rather than as a net number as currently required. The implementation of ASU No. 2010-06 is not expected to have a material impact on USSO s financial statements.

NOTE 9 SUBSEQUENT EVENTS

USSO has performed an evaluation of subsequent events through the date the financial statements were issued. The subsequent events were as follows:

As discussed in Note 3 and Note 4 above, on October 20, 2011, USSO and the NYMEX amended the licensing agreement. Pursuant to the agreement, up to October 19, 2011, USSO and the affiliated funds managed by USCF, other than USBO, USCI, CPER, USAG and USMI, paid a licensing fee that was equal to 0.04% for the first $1,000,000,000 of combined assets of the funds and 0.02% for combined assets above $1,000,000,000. On and after October 20, 2011, USSO and the affiliated funds managed by USCF, other than USBO, USCI, CPER, USAG and USMI, pay a licensing fee that is equal to 0.015% on all assets.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the condensed financial statements and the notes thereto of the United States Short Oil Fund, LP (USSO) included elsewhere in this quarterly report on Form 10-Q.

Forward-Looking Information

This quarterly report on Form 10-Q, including this Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding the plans and objectives of management for future operations. This information may involve known and unknown risks, uncertainties and other factors that may cause USSO s actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe USSO s future plans, strategies and expectations, are generally identifiable by use of the words may, will, should, expect, anticipate, estimate, believe, intend or project, the negative of these words, other variations o comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and USSO cannot assure investors that the projections included in these forward-looking statements will come to pass. USSO s actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors.

USSO has based the forward-looking statements included in this quarterly report on Form 10-Q on information available to it on the date of this quarterly report on Form 10-Q, and USSO assumes no obligation to update any such forward-looking statements. Although USSO undertakes no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, investors are advised to consult any additional disclosures that USSO may make directly to them or through reports that USSO in the future files with the U.S. Securities and Exchange Commission (the SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

Introduction

USSO, a Delaware limited partnership, is a commodity pool that issues units that may be purchased and sold on the NYSE Arca, Inc. (the NYSE Arca). The investment objective of USSO is for the daily changes in percentage terms of its units net asset value (NAV) to inversely reflect the daily changes in percentage terms of the spot price of light, sweet crude oil delivered to Cushing, Oklahoma, as measured by the changes in the price of the futures contract for light, sweet crude oil traded on the New York Mercantile Exchange (the NYMEX) that is the near month contract to expire, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire, less USSO s expenses. It is not the intent of USSO to be operated in a fashion such that the per unit NAV will equal, in dollar terms, the inverse of the spot price of light, sweet crude oil or any particular futures contract based on light, sweet crude oil. The general partner of USSO, United States Commodity Funds LLC (USCF), believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in Futures Contracts (as defined below) and Other Crude Oil-Related Investments (as defined below).

USSO invests in short positions in futures contracts for crude oil, heating oil, gasoline, natural gas and other petroleum-based fuels that are traded on the NYMEX, ICE Futures or other U.S. and foreign exchanges (collectively, Futures Contracts). USSO may take short positions in other crude oil-related investments such as cash-settled options on Futures Contracts, forward contracts for crude oil, cleared swap contracts and over-the-counter transactions that are based on the price of crude oil and other petroleum-based fuels, Futures Contracts and indices based on the foregoing (collectively, Other Crude Oil-Related Investments). For convenience and unless otherwise specified, Futures Contracts and Other Crude Oil-Related Investments collectively are referred to as Crude Oil Interests in this quarterly report on Form 10-Q.

USSO seeks to achieve its investment objective by investing in short positions in a combination of Futures Contracts and Other Oil Interests such that changes in its NAV, measured in percentage terms, will closely track the inverse of the changes in the price of the Benchmark Futures Contract, also measured in percentage terms. USCF believes the daily changes in the price of the Benchmark Futures Contract have historically exhibited a close correlation with the daily changes in the spot price of light, sweet crude oil. It is not the intent of USSO to be operated in a fashion such that the per unit NAV will equal, in dollar terms, the inverse of the spot price of light, sweet crude oil or any particular futures contract based on light, sweet crude oil. USCF believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in Futures Contracts and Other Oil-Related Investments.

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On any valuation day, the Benchmark Futures Contract is the near month futures contract for light, sweet crude oil traded on the NYMEX unless the near month contract is within two weeks of expiration, in which case the Benchmark Futures Contract becomes, over a 4-day period, the next month contract for light, sweet crude oil traded on the NYMEX. Near month contract means the next contract traded on the NYMEX due to expire. Next month contract means the first contract traded on the NYMEX due to expire after the near month contract.

To achieve its investment objective, USSO anticipates that it will need to maintain short positions in the Futures Contracts and Other Crude-Oil Related Investments in which it invests. A short position is one in which USSO will have sold the Futures Contract or Other Crude-Oil Related Investment and must buy it back or otherwise close out the position in the future. As a result, a drop in the market value of the Crude Oil Interest would lead to a potential gain for USSO, while an increase in the market value of the Crude Oil Interest would lead to a potential loss for USSO. Typically, a short position will produce a result that is the inverse of buying the Futures Contract or Other Crude-Oil Related Investment (an approach referred to as being long the investment). USCF expects the daily performance of USSO to generally be inverse to the daily performance of the United States Oil Fund, LP (USOF), another commodity pool managed by USCF, which seeks to have the daily changes in percentage terms of its units NAV track the daily changes in percentage terms of the spot price of light, sweet crude oil as traded in the United States.

The regulation of commodity interests in the United States is subject to ongoing modification by governmental and judicial action. On July 21, 2010, a broad financial regulatory reform bill, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), was signed into law.

All of the Dodd-Frank Act s new provisions became effective on July 16, 2011. However, some new rules implementing, and in many cases, interpreting and clarifying, the Dodd-Frank Act s new requirements have not been finalized. Therefore, USSO will necessarily operate in a period of regulatory uncertainty until all applicable new regulations have been finalized. Some specific examples of how the new Dodd-Frank Act provisions and rules adopted thereunder could impact USSO are discussed below.

Provisions in the Dodd-Frank Act include the requirement that position limits be established on a wide range of commodity interests including energy-based and other commodity futures contracts, certain cleared commodity swaps and certain over-the-counter commodity contracts; new registration, recordkeeping, capital and margin requirements for swap dealers and major swap participants as determined by the new law and applicable regulations; and the forced use of clearinghouse mechanisms for most swap transactions that are currently entered into in the over-the-counter market. The new law and the rules thereunder may negatively impact USSO s ability to meet its investment objective either through limits or requirements imposed on it or upon its counterparties. Further, increased regulation of, and the imposition of additional costs on, swap transactions under the new legislation and implementing regulations could cause a reduction in the swap market and the overall derivatives markets, which could restrict liquidity and adversely affect USSO. In particular, new position limits imposed on USSO or its counterparties may impact USSO s ability to invest in a manner that most efficiently meets its investment objective, and new requirements, including capital and mandatory clearing, may increase the cost of USSO s investments and doing business, which could adversely impact the ability of USSO to achieve its investment objective.

On October 18, 2011, the U.S. Commodity Futures Trading Commission (the CFTC) adopted regulations implementing position limits and limit formulas for 28 core physical commodity futures contracts, including the Futures Contracts and options on Futures Contracts executed pursuant to the rules of designated contract markets (*i.e.*, certain regulated exchanges) and commodity swaps that are economically equivalent to such futures and options contracts (collectively, Referenced Contracts). The new regulations require, among other things, aggregation of position limits that would apply across different trading venues to contracts based on the same underlying commodity. However, the regulations do not appear to require aggregation of Referenced Contracts held across separate Funds or Trust Series.

The position limit rules will be implemented in two phases: spot-month position limits and non-spot-month position limits. Spot-month limits will be effective sixty days after the term swap is defined under the Dodd-Frank Act (see below). The limits adopted will be based on the spot-month position limit levels currently in place at the Futures Exchanges (or designated contract market or DCM). Thereafter, the spot-month limits will be adjusted annually for energy contracts. These subsequent limits will be based on the CFTC s determination of deliverable supply in consultation with the Futures Exchanges. Spot-month position limit levels will be set generally at 25% of estimated deliverable supply, and limits will be applied separately for physical-delivery and cash-settled contracts in the same commodity.

Non-spot-month position limits will go into effect by CFTC order after the CFTC has received one year of open interest data on physical commodity cleared and uncleared swaps under the swaps large trader reporting rule. The non-spot month limits will be adjusted biennially based on Referenced Contract open interest. Non-spot-month position limits (*i.e*., limits applied to positions in all contract months combined or in a single contract month) will be set using the 10/2.5 percent formula: 10 percent of the contract s first 25,000 of open interest and 2.5 percent thereafter. These limits will be reset biennially based on two years of open interest data.

Based on its current understanding of the final position limit regulations, USCF does not anticipate significant negative impact on the ability of USSO to achieve its investment objective. However, as of the filing of this quarterly report on Form 10-Q, additional studies are required before final rules are implemented, and therefore, it cannot be determined with certainty, what impact such rules will have on USSO.

On April 12, 2011, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Farm Credit System and the Federal Housing Finance Agency (collectively, the Prudential Regulators) and the CFTC issued proposed rules establishing minimum initial and variation margin collection requirements for certain swap dealers and major swap participants (collectively, Covered Swap Entities), which if adopted, would require Covered Swap Entities to collect minimum initial and variation margin amounts from swap counterparties. The public comment period for these rules was extended on June 23, 2011. The Prudential Regulators proposed rules would apply to those Covered Swap Entities that are regulated by the Prudential Regulators and the CFTC s proposed rules would apply to Covered Swap Entities that are not regulated by the Prudential Regulators.

The amount of initial and variation margin that Covered Swap Entities would be required to collect under the proposed rules varies based on whether a Covered Swap Entity s counterparty to a particular swap is (1) also a Covered Swap Entity, (2) a high-risk financial entity end-user, (3) a low-risk financial entity end-user (*e.g.,* financial entities subject to capital requirements imposed by bank or insurance regulators, that predominantly use swaps to hedge and that do not have significant swap exposure) or (4) a non-financial end-user. With certain exceptions not applicable to USSO and the affiliated funds managed by USCF, Covered Swap Entities would not be required to post initial or variation margin to any of their counterparties except for other Covered Swap Entities.

Covered Swap Entities and all financial entity end-users would be required to post initial margin and variation margin when they enter into swaps with Covered Swap Entities. Margin posted by low-risk financial entity end-users could be subject to thresholds under the proposed rules. As commodity pools, USSO and the affiliated funds managed by USCF would be high-risk financial entity end-users and would therefore have to post margin without thresholds.

The CFTC and the SEC have proposed joint rules defining swaps and security-based swaps, which would provide additional clarity regarding which transactions will be regulated as such under the Dodd-Frank Act and, more specifically, whether and how new CFTC and SEC rules will apply to USSO. Final rules with regard to the definition of swaps and security-based swaps have not yet been proposed.

The CFTC has now issued proposed versions of all of the rules it is required to promulgate under the Dodd-Frank Act but continues to issue proposed versions of additional rules that it has authority to promulgate.

On July 14, 2011, the CFTC issued an order providing temporary relief from certain swaps-related provisions of Title VII that would have automatically taken effect on July 16, 2011. The final order granted temporary exemptive relief that, by its terms, expires upon the earlier of the effective date of the required final rulemaking or December 31, 2011. On October 18, 2011, the CFTC issued an order, which modifies the July 14, 2011 order by extending the temporary exemptive relief to the earlier of the effective date of the required final rulemaking or July 16, 2012.

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The effect of the future regulatory change on USSO is impossible to predict, but it could be substantial and adverse.

USCF, which is registered as a commodity pool operator (CPO) with the CFTC, is authorized by the Amended and Restated Agreement of Limited Partnership of USSO (the LP Agreement) to manage USSO. USCF is authorized by USSO in its sole judgment to employ and establish the terms of employment for, and termination of, commodity trading advisors or futures commission merchants.

Price Movements

Crude oil futures prices were volatile during the nine months ended September 30, 2011 and exhibited moderate daily swings along with an uneven downward trend between January 2011 and February 2011, an upward trend from March 2011 to May 2011 and finishing the period with a downward trend. The price of the Benchmark Futures Contract started the period at $91.38 per barrel. It hit a peak on April 29, 2011 at $113.93 per barrel. The low of the period was on September 30, 2011 when the price dropped to $79.20 per barrel. The period ended with the Benchmark Futures Contract at $79.20 per barrel, down approximately 13.33% over the period. USSO s NAV began the period at $40.42 per unit and ended the period at $46.20 per unit on September 30, 2011, an increase of approximately 14.30% over the period. USSO s NAV reached its high for the period on August 9, 2011 at $46.99 per unit and reached its low for the period on April 29, 2011 at $33.63 per unit. Since USSO s investment objective is to track the inverse of the changes in the price of the Benchmark Futures Contract, the increase in NAV reflects the inverse of the decrease in the price of the Benchmark Futures Contract. The Benchmark Futures Contract prices listed above began with the February 2011 contract and ended with the November 2011 contract. The decrease of approximately 13.33% on the Benchmark Futures Contract listed above is a hypothetical return only and could not actually be achieved by an investor holding Futures Contracts. An investment in Futures Contracts would need to be rolled forward during the time period described in order to achieve such a result. Furthermore, the change in the nominal price of these differing Futures Contracts, measured from the start of the period to the end of the period, does not represent the actual benchmark results that USSO seeks to track, which are more fully described below, in the section titled *Tracking USSO s Benchmark*.

During the nine months ended September 30, 2011, the level of contango remained mildly steep, meaning that the price of the near month crude oil Futures Contract was less than the price of the next month crude oil Futures Contract, or contracts further away from expiration. Crude oil inventories, which reached historic levels in January 2009 and February 2009 and which appeared to be the primary cause of the steep level of contango, began to drop in March 2009 and continued to drop for the remainder of 2009 and the beginning of 2010. During the year ended December 31, 2010, crude oil inventories began to climb higher, contributing to the crude oil futures market remaining in contango through the end of 2010. During the nine months ended September 30, 2011, crude oil inventories began to decline which contributed to the mild level of contango through the end of September 2011. For a discussion of the impact of backwardation and contango on total returns, see *Term Structure of Crude Oil Prices and the Impact on Total Returns* below.

Valuation of Futures Contracts and the Computation of the NAV

The NAV of USSO s units is calculated once each NYSE Arca trading day. The NAV for a particular trading day is released after 4:00 p.m. New York time. Trading during the core trading session on the NYSE Arca typically closes at 4:00 p.m. New York time. USSO s administrator uses the NYMEX closing price (determined at the earlier of the close of the NYMEX or 2:30 p.m. New York time) for the contracts held on the NYMEX, but calculates or determines the value of all other USSO investments, including ICE Futures contracts or other futures contracts, as of the earlier of the close of the NYSE Arca or 4:00 p.m. New York time.

Results of Operations and the Crude Oil Market

Results of Operations. On September 24, 2009, USSO listed its units on the NYSE Arca under the ticker symbol DNO. On that day, USSO established its initial offering price at $50.00 per unit and issued 200,000 units to the initial authorized purchaser, Deutsche Bank Securities Inc., in exchange for $10,000,000 in cash.

Since its initial offering of 25,000,000 units, USSO has not registered any subsequent offerings of its units. As of September 30, 2011, USSO had issued 1,100,000 units, 300,000 of which were outstanding. As of September 30, 2011, there were 23,900,000 units registered but not yet issued.

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More units may have been issued by USSO than are outstanding due to the redemption of units. Unlike funds that are registered under the Investment Company Act of 1940, as amended, units that have been redeemed by USSO cannot be resold by USSO. As a result, USSO contemplates that additional offerings of its units will be registered with the SEC in the future in anticipation of additional issuances and redemptions.

For the Nine Months Ended September 30, 2011 Compared to the Nine Months Ended September 30, 2010

As of September 30, 2011, the total unrealized gain on short positions in Futures Contracts owned or held on that day was $1,220,180, and USSO established cash deposits and investments in money market funds that were equal to $12,656,575. USSO held 74.67% of its cash assets in overnight deposits and money market funds at its custodian bank, while 25.33% of the cash balance was held as margin deposits for USSO s short positions in the Futures Contracts. The ending per unit NAV on September 30, 2011 was $46.20.

By comparison, as of September 30, 2010, the total unrealized loss on short positions in Futures Contracts owned or held on that day was $823,490, and USSO established cash deposits and investments in money market funds that were equal to $19,244,940. USSO held 85.06% of its cash assets in overnight deposits and money market funds at its custodian bank, while 14.94% of the cash balance was held as margin deposits for USSO s short positions in the Futures Contracts. The decrease in cash assets in overnight deposits and money market funds for September 30, 2011 as compared to September 30, 2010 was the result of USSO s smaller size in the current period as measured by total net assets. The ending per unit NAV on September 30, 2010 was $45.98. The increase in the per unit NAV for September 30, 2011, as compared to September 30, 2010 was primarily a result of crude oil futures contracts increasing in value between the period ended September 30, 2010 and the period ended September 30, 2011.

Portfolio Expenses. USSO s expenses consist of investment management fees, brokerage fees and commissions, certain offering costs, licensing fees, the fees and expenses of the independent directors of USCF and expenses relating to tax accounting and reporting requirements. The management fee that USSO pays to USCF is calculated as a percentage of the total net assets of USSO. USSO pays USCF a management fee of 0.60% of its average net assets. The fee is accrued daily and paid monthly.

During the nine months ended September 30, 2011, the daily average total net assets of USSO were $9,439,422. The management fee incurred by USSO during the period amounted to $42,361. By comparison, during the nine months ended September 30, 2010, the daily average total net assets of USSO were $18,499,371. The management fee paid by USSO during the period amounted to $83,019.

In addition to the management fee, USSO pays all brokerage fees and other expenses, including certain tax reporting costs, licensing fees for the use of intellectual property, ongoing registration or other fees paid to the SEC, the Financial Industry Regulatory Authority (FINRA) and any other regulatory agency in connection with offers and sales of its units subsequent to the initial offering and all legal, accounting, printing and other expenses associated therewith. The total of these fees and expenses for the nine months ended September 30, 2011 was $142,341, as compared to $195,856 for the nine months ended September 30, 2010. The decrease in expenses for the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010 was primarily a result of the relative size of USSO and activity that resulted from its decreased size, including decreased brokerage fees during the nine months ended September 30, 2011. For the nine months ended September 30, 2011 and 2010, USSO did not incur any ongoing registration fees or other expenses relating to the registration and offering of additional units. During the nine months ended September 30, 2011 and 2010, an expense waiver was in effect which offset certain of the expenses incurred by USSO. The total amount of the expense waiver was $121,023 for the nine months ended September 30, 2011 and $149,627 for the nine months ended September 30, 2010. For the nine months ended September 30, 2011 and 2010, the expenses of USSO, including management fees, commissions, and all other expenses, before allowance for the expense waiver, totaled $184,702 and $278,875, respectively, and after allowance for the expense waiver, totaled $63,679 and $129,248, respectively.

USSO is responsible for paying its portion of the directors and officers liability insurance of all affiliated funds for which USCF serves as general partner and sponsor and the fees and expenses of the independent directors who also serve as audit committee members of those affiliated USCF funds organized as limited partnerships and, as of July 8, 2011, those funds organized as a series of a Delaware statutory trust. Affiliated funds of USSO include the United States Oil Fund, LP (USOF), the United States Natural Gas Fund, LP (USNG), the United States 12 Month Oil Fund, LP (US12OF), the United States Gasoline Fund, LP (UGA), the United States Heating Oil Fund, LP (USHO), the United States 12 Month Natural Gas Fund, LP (US12NG), the United States Brent Oil Fund, LP (USBO), the United States Commodity Index Fund (USCI), the United States Agriculture Index Fund (USAG), the United States Copper Index Fund (CPER) and the United States Metals Index Fund (USMI). USSO shares the fees and expenses with each affiliated fund, as described above, based on the relative assets of each fund computed on a daily basis. These fees and expenses for the year ending December 31, 2011 are estimated to be a total of $540,000 for all affiliated funds. By comparison, for the year ended December 31, 2010, these fees and expenses amounted to a total of $1,107,140 for all affiliated funds, except USCI, USAG, USMI, and CPER, and USSO s portion of such fees and expenses was $3,091. Effective as of April 1, 2010, USSO became responsible for paying its portion of any payments that may become due to the independent directors pursuant to the deferred compensation agreements entered into between the independent directors, USCF and the affiliated funds, except USCI, USAG, CPER and USMI.

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USSO also incurs commissions to brokers for the purchase and sale of Futures Contracts, Other Crude Oil-Related Investments or short-term obligations of the United States of two years or less (Treasuries). During the nine months ended September 30, 2011, total commissions paid to brokers amounted to $8,321. By comparison, during the nine months ended September 30, 2010, total commissions paid to brokers amounted to $19,438. The decrease in the total commissions paid to brokers for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 was primarily a function of decreased brokerage fees due to a lower number of futures contracts being held and traded as a result of the decrease in USSO s total net assets during the nine months ended September 30, 2011. The decrease in assets required USSO to purchase a fewer number of Futures Contracts and incur a smaller amount of commissions. As an annualized percentage of total net assets, the figure for the nine months ended September 30, 2011 represents approximately 0.12% of total net assets. By comparison, the figure for the nine months ended September 30, 2010 represented approximately 0.14% of total net assets. However, there can be no assurance that commission costs and portfolio turnover will not cause commission expenses to rise in future quarters.

The fees and expenses associated with USSO s audit expenses and tax accounting and reporting requirements are paid by USSO. These costs are estimated to be $45,000 for the year ending December 31, 2011. USCF, though under no obligation to do so, agreed to pay certain costs for tax reporting and audit expenses normally borne by USSO, to the extent that such expenses exceed 0.15% (15 basis points) of USSO s NAV, on an annualized basis, through at least December 31, 2011. USCF has no obligation to continue such payments into subsequent periods.

Dividend and Interest Income. USSO seeks to invest its assets such that it holds short positions in Futures Contracts and Other Crude Oil-Related Investments in an amount equal to the total net assets of its portfolio. Typically, such investments do not require USSO to pay the full amount of the contract value at the time of purchase, but rather require USSO to post an amount as a margin deposit against the eventual settlement of the short position. As a result, USSO retains an amount that is approximately equal to its total net assets, which USSO invests in Treasuries, cash and/or cash equivalents. This includes both the amount on deposit with the futures commission merchant as margin, as well as unrestricted cash and cash equivalents held with USSO s custodian bank. The Treasuries, cash and/or cash equivalents earn income that accrues on a daily basis. For the nine months ended September 30, 2011, USSO earned $1,221 in dividend and interest income on such cash and/or cash equivalents. Based on USSO s average daily total net assets, this was equivalent to an annualized yield of 0.02%. USSO did not purchase Treasuries during the nine months ended September 30, 2011 and held only cash and/or cash equivalents during this time period. By comparison, for the nine months ended September 30, 2010, USSO earned $6,050 in dividend and interest income on such cash and/or cash equivalents. Based on USSO s average daily total net assets, this was equivalent to an annualized yield of 0.04%. USSO did not purchase Treasuries during the nine months ended September 30, 2010 and held only cash and/or cash equivalents during this time period. Interest rates on short-term investments, including cash, cash equivalents and Treasuries, were lower during the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. As a result, the amount of income earned by USSO as a percentage of total net assets was lower during the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.

For the Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010

Portfolio Expenses. During the three months ended September 30, 2011, the daily average total net assets of USSO were $12,490,907. The management fee incurred by USSO during the period amounted to $18,891. By comparison, during the three months ended September 30, 2010, the daily average total net assets of USSO were $20,922,507. The management fee paid by USSO during the period amounted to $31,642.

In addition to the management fee, USSO pays all brokerage fees and other expenses, including certain tax reporting costs, licensing fees for the use of intellectual property, ongoing registration or other fees paid to the SEC, FINRA and any other regulatory agency in connection with offers and sales of its units subsequent to the initial offering and all legal, accounting, printing and other expenses associated therewith. The total of these fees and expenses for the three months ended September 30, 2011 was $45,953, as compared to $21,022 for the three months ended September 30, 2010. The increase in these expenses for the three months ended September 30, 2011, as compared to the three months ended September 30, 2010 was primarily a result of the relative size of USSO and creation and redemption activity during the three months ended September 30, 2011. For the three months ended September 30, 2011 and 2010, USSO did not incur any ongoing registration fees or other expenses relating to the registration and offering of additional units. During the three months ended September 30, 2011 and 2010, an expense waiver was in effect which offset certain of the expenses incurred by USSO. The total amount of the expense waiver was $36,471 for the three months ended September 30, 2011 and $4,852 for the three months ended September 30, 2010. For the three months ended September 30, 2011 and 2010, the expenses of USSO, including management fees, commissions, and all other expenses, before allowance for the expense waiver, totaled $64,844 and $52,664, respectively, and after allowance for the expense waiver, totaled $28,373 and $47,812, respectively.

USSO is responsible for paying its portion of the directors and officers liability insurance of all affiliated funds for which USCF serves as general partner and sponsor and the fees and expenses of the independent directors who also serve as audit committee members of those affiliated USCF funds organized as limited partnerships and, as of July 8, 2011, those affiliated funds organized as a series of a Delaware statutory trust. Affiliated funds of USSO include USOF, USNG, US12OF, UGA, USHO, US12NG, USBO, USCI, USAG, CPER and USMI. USSO shares the fees and expenses with each affiliated fund, as described above, based on the relative assets of each fund computed on a daily basis. These fees and expenses for the year ending December 31, 2011 are estimated to be a total of $540,000 for all affiliated funds. By comparison, for the year ended December 31, 2010, these fees and expenses amounted to a total of $1,107,140 for all affiliated funds, except USCI, USAG, CPER and USMI, and USSO s portion of such fees and expenses was $3,091. Effective as of April 1, 2010, USSO became responsible for paying its portion of any payments that may become due to the independent directors pursuant to the deferred compensation agreements entered into between the independent directors, USCF and the affiliated funds, except USCI, USAG, CPER and USMI.

USSO also incurs commissions to brokers for the purchase and sale of Futures Contracts, Other Crude Oil-Related Investments or Treasuries. During the three months ended September 30, 2011, total commissions paid to brokers amounted to $3,754. By comparison, during the three months ended September 30, 2010, total commissions paid to brokers amounted to $6,555. The decrease in the total commissions paid to brokers for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010 was primarily a function of decreased brokerage fees due to a lower number of futures contracts being held and traded as a result of the increase in the price of Futures Contracts during the three months ended September 30, 2011. The decrease in trading activity required USSO to purchase a fewer number of Futures Contracts and incur a smaller amount of commissions. As an annualized percentage of total net assets, the figure for the three months ended September 30, 2011 represents approximately 0.12% of total net assets. By comparison, the figure for the three months ended September 30, 2010 represented approximately 0.12% of total net assets. However, there can be no assurance that commission costs and portfolio turnover will not cause commission expenses to rise in future quarters.

The fees and expenses associated with USSO s audit expenses and tax accounting and reporting requirements are paid by USSO. These costs are estimated to be $45,000 for the year ending December 31, 2011. USCF, though under no obligation to do so, agreed to pay certain costs for tax reporting and audit expenses normally borne by USSO, to the extent that such expenses exceed 0.15% (15 basis points) of USSO s NAV, on an annualized basis, through at least December 31, 2011. USCF has no obligation to continue such payments into subsequent periods.

Dividend and Interest Income. USSO seeks to invest its assets such that it holds short positions in Futures Contracts and Other Crude Oil-Related Investments in an amount equal to the total net assets of its portfolio. Typically, such investments do not require USSO to pay the full amount of the contract value at the time of purchase, but rather require USSO to post an amount as a margin deposit against the eventual settlement of the short position. As a result, USSO retains an amount that is approximately equal to its total net assets, which USSO invests in Treasuries, cash and/or cash equivalents. This includes both the amount on deposit with the futures commission merchant as margin, as well as unrestricted cash and cash equivalents held with USSO s custodian bank. The Treasuries, cash and/or cash equivalents earn income that accrues on a daily basis. For the three months ended September 30, 2011, USSO earned $487 in dividend and interest income on such cash and/or cash equivalents. Based on USSO s average daily total net assets, this was equivalent to an annualized yield of 0.01%. USSO did not purchase Treasuries during the three months ended September 30, 2011 and held only cash and/or cash equivalents during this time period. By comparison, for the three months ended September 30, 2010, USSO earned $3,168 in dividend and interest income on such cash and/or cash equivalents. Based on USSO s average daily total net assets, this was equivalent to an annualized yield of 0.06%. USSO did not purchase Treasuries during the three months ended September 30, 2010 and held only cash and/or cash equivalents during this time period. Interest rates on short-term investments, including cash, cash equivalents and Treasuries, were lower during the three months ended September 30, 2011 as compared to the three months ended September 30, 2010. As a result, the amount of income earned by USSO as a percentage of total net assets was lower during the three months ended September 30, 2011 as compared to the three months ended September 30, 2010.

Tracking USSO s Benchmark

USCF seeks to manage USSO s portfolio such that changes in its average daily NAV, on a percentage basis, inversely track, on a percentage basis, the changes in the average daily price of the Benchmark Futures Contract. Specifically, USCF seeks to manage the portfolio such that over any rolling period of 30 valuation days, the average daily change in USSO s NAV is within a range of -90% to -110% (-0.9 to -1.1) of the average daily change in the price of the Benchmark Futures Contract. As an example, if the average daily movement of the price of the Benchmark Futures Contract for a particular 30-valuation day time period was 0.5% per day, USCF would attempt to manage the portfolio such that the average daily movement of the NAV during that same time period fell between -0.45% and -0.55% (*i.e.*, between -0.9 and -1.1 of the benchmark s results). USSO s portfolio management goals do not include trying to make the nominal price of USSO s NAV equal to the inverse of the nominal price of the current Benchmark Futures Contract or the spot price for light, sweet crude oil. USCF believes that it is not practical to manage the portfolio to achieve such an investment goal when investing in listed Futures Contracts.

For the 30 valuation days ended September 30, 2011, the inverse of the simple average daily change in the Benchmark Futures Contract was 0.117%, while the simple average daily change in the NAV of USSO over the same time period was 0.114%. The average daily difference was -0.003% (or -0.3 basis points, where 1 basis point equals 1/100 of 1%). As a percentage of the inverse of the daily movement of the Benchmark Futures Contract, the average error in daily tracking by the NAV was -1.17%, meaning that over this time period USSO s tracking error was within the plus or minus 10% range established as its benchmark tracking goal. The first chart below shows the daily movement of USSO s NAV versus the inverse of the daily movement of the Benchmark Futures Contract for the 30-valuation day period ended September 30, 2011. The second chart below shows the monthly total returns of USSO as compared to the inverse of the monthly value of the Benchmark Futures Contracts since inception.

Since the commencement of the offering of USSO s units to the public on September 24, 2009 to September 30, 2011, the inverse of the simple average daily change in the Benchmark Futures Contract was 0.007%, while the simple average daily change in the NAV of USSO over the same time period was 0.003%. The average daily difference was -0.005% (or -0.5 basis points, where 1 basis point equals 1/100 of 1%). As a percentage of the inverse of the daily movement of the Benchmark Futures Contract, the average error in daily tracking by the NAV was -1.47%, meaning that over this time period USSO s tracking error was within the plus or minus 10% range established as its benchmark tracking goal.

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An alternative tracking measurement of the return performance of USSO versus the inverse of the return of its Benchmark Futures Contract can be calculated by comparing the actual return of USSO, measured by changes in its NAV, versus the *expected* changes in its NAV under the assumption that USSO s returns had been exactly inverse to the daily changes in its Benchmark Futures Contract.

For the nine months ended September 30, 2011, the actual total return of USSO as measured by changes in its NAV was 14.30%. This is based on an initial NAV of $40.42 on December 31, 2010 and an ending NAV as of September 30, 2011 of $46.20. During this time period, USSO made no distributions to its unitholders. However, if USSO s daily changes in its NAV had instead exactly inversely tracked the changes in the daily total return of the Benchmark Futures Contract, USSO would have had an estimated NAV of $46.77 as of September 30, 2011, for a total return over the relevant time period of 15.71%. The difference between the actual NAV total return of USSO of 14.30% and the expected total return based on the inverse of changes in the daily return of the Benchmark Futures Contract of 15.71% was an error over the time period of (1.41)%, which is to say that USSO s actual total return underperformed the inverse of the benchmark result by that percentage. USCF believes that a portion of the difference between the actual total return and the expected benchmark total return can be attributed to the net impact of contango and the expenses that USSO pays, offset in part by the income that USSO collects on its cash and cash equivalent holdings. During the nine months ended September 30, 2011, USSO received dividend and interest income of $1,221, which is equivalent to a weighted average income rate of 0.02% for such period. In addition, during the nine months ended September 30, 2011, USSO also collected $5,000 from its Authorized Purchasers for creating or redeeming baskets of units. This income also contributed to USSO s actual total return. During the nine months ended September 30, 2011, USSO incurred net expenses of $63,679. Income from dividends and interest and Authorized Purchaser collections net of expenses was $(57,458), which is equivalent to an annualized weighted average net income rate of (0.81)% for the nine months ended September 30, 2011.

By comparison, for the nine months ended September 30, 2010, the actual total return of USSO as measured by changes in its NAV was 4.52%. This was based on an initial NAV of $43.99 on December 31, 2009 and an ending NAV as of September 30, 2010 of $45.98. During this time period, USSO made no distributions to its unitholders. However, if USSO s daily changes in its NAV had instead exactly inversely tracked the changes in the daily total return of the Benchmark Futures Contract, USSO would have had an estimated NAV of $46.09 as of September 30, 2010, for a total return over the relevant time period of 4.75%. The difference between the actual NAV total return of USSO of 4.52% and the expected total return based on the inverse of changes in the daily return of the Benchmark Futures Contract of 4.75% was an error over the time period of -0.23%, which is to say that USSO s actual total return underperformed the inverse of the benchmark result by that percentage. USCF believes that a portion of the difference between the actual total return and the expected benchmark total return can be attributed to the net impact of the expenses that USSO paid, offset in part by the income that USSO collected on its cash and cash equivalent holdings. During the nine months ended September 30, 2010, USSO received dividend and interest income of $6,050, which is equivalent to a weighted average income rate of 0.04% for such period. In addition, during the nine months ended September 30, 2010, USSO also collected $6,000 from its Authorized Purchasers for creating or redeeming baskets of units. This income contributed to USSO s actual total return. During the nine months ended September 30, 2010, USSO incurred net expenses of $129,248. Income from dividends and interest and Authorized Purchaser collections net of expenses was $(117,198), which is equivalent to an annualized weighted average net income rate of (0.85)% for the nine months ended September 30, 2010.

There are currently three factors that have impacted or are most likely to impact USSO s ability to accurately inversely track its Benchmark Futures Contract.

First, USSO may buy or sell its holdings in the then current Benchmark Futures Contract at a price other than the closing settlement price of that contract on the day during which USSO executes the trade. In that case, USSO may pay a price that is higher, or lower, than that of the Benchmark Futures Contract, which could cause the changes in the daily NAV of USSO to either be too high or too low relative to the changes in the Benchmark Futures Contract. During the nine months ended September 30, 2011, USCF attempted to minimize the effect of these transactions by seeking to execute its purchase or sale of the Benchmark Futures Contract at, or as close as possible to, the end of the day settlement price. However, it may not always be possible for USSO to obtain the closing settlement price and there is no assurance that failure to obtain the closing settlement price in the future will not adversely impact USSO s attempt to inversely track the Benchmark Futures Contract over time.

Second, USSO earns dividend and interest income on its cash and cash equivalents. USSO is not required to distribute any portion of its income to its unitholders and did not make any distributions to unitholders during the nine months ended September 30, 2011. Interest payments, and any other income, were retained within the portfolio and added to USSO s NAV. When this income exceeds the level of USSO s expenses for its management fee, brokerage commissions and other expenses (including ongoing registration fees, licensing fees and the fees and expenses of the independent directors of USCF), USSO will realize a net yield that will tend to cause daily changes in the NAV of USSO to track slightly higher than the inverse of daily changes in the Benchmark Futures Contract. During the nine months ended September 30, 2011, USSO earned, on an annualized basis, approximately 0.02% on its cash holdings. It also incurred cash expenses on an annualized basis of 0.60% for management fees, approximately 0.12% in brokerage commission costs related to the purchase and sale of futures contracts and 0.18% for other net expenses. The foregoing fees and expenses resulted in a net yield on an annualized basis of approximately (0.88)% and affected USSO s ability to track the inverse of the daily changes in the Benchmark Futures Contract. If short-term interest rates rise above the current levels, the level of deviation created by the yield would decrease. Conversely, if short-term interest rates were to decline, the amount of error created by the yield would increase. When short-term yields drop to a level lower than the combined expenses of the management fee and the brokerage commissions, then the tracking error becomes a negative number and would tend to cause the daily returns of the NAV to underperform the daily returns of the Benchmark Futures Contract.

Third, USSO may hold Other Crude Oil-Related Investments in its portfolio that may fail to closely track the inverse of the Benchmark Futures Contract s total return movements. In that case, the error in tracking the Benchmark Futures Contract could result in daily changes in the NAV of USSO that are either too high, or too low, relative to the inverse of the daily changes in the Benchmark Futures Contract. During the nine months ended September 30, 2011, USSO did not hold any Other Crude Oil-Related Investments. If USSO increases in size, and due to its obligations to comply with regulatory limits, USSO may invest in Other Crude Oil-Related Investments which may have the effect of increasing transaction related expenses and may result in increased tracking error.

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Term Structure of Crude Oil Futures Prices and the Impact on Total Returns. Several factors determine the total return from investing in a futures contract position. One factor that impacts the total return that will result from investing in near month futures contracts and rolling those contracts forward each month is the price relationship between the current near month contract and the next month contract. For example, if the price of the near month contract is higher than the next month contract (a situation referred to as backwardation in the futures market), then absent any other change there is a tendency for the price of a next month contract to rise in value as it becomes the near month contract and approaches expiration. Conversely, if the price of a near month contract is lower than the next month contract (a situation referred to as contango in the futures market), then absent any other change there is a tendency for the price of a next month contract to decline in value as it becomes the near month contract and approaches expiration.

As an example, assume that the price of crude oil for immediate delivery (the spot price), was $50 per barrel, and the value of a position in the near month futures contract was also $50. Over time, the price of the barrel of crude oil will fluctuate based on a number of market factors, including demand for oil relative to its supply. The value of the near month contract will likewise fluctuate in reaction to a number of market factors. If investors seek to maintain their position in a near month contract and not take delivery of the oil, every month they must sell their current near month contract as it approaches expiration and invest in the next month contract.

If the futures market is in backwardation, *e.g.*, when the expected price of crude oil in the future would be less, the investor would be buying a next month contract for a lower price than the current near month contract. Using the $50 per barrel price above to represent the front month price, the price of the next month contract could be $49 per barrel, that is, 2% cheaper than the front month contract. Hypothetically, and assuming no other changes to either prevailing crude oil prices or the price relationship between the spot price, the near month contract and the next month contract (and ignoring the impact of commission costs and the income earned on cash and/or cash equivalents), the value of the $49 next month contract would rise as it approaches expiration and becomes the new near month contract with a price of $50. In this example, the value of an investment in the second month contract would tend to rise faster than the spot price of crude oil, or fall slower. As a result, it would be possible in this hypothetical example for the spot price of crude oil to have risen 10% after some period of time, while the value of the investment in the second month futures contract would have risen 12%, assuming backwardation is large enough or enough time has elapsed. Similarly, the spot price of crude oil could have fallen 10% while the value of an investment in the futures contract could have fallen only 8%. Over time, if backwardation remained constant, the difference would continue to increase.

If the futures market is in contango, the investor would be buying a next month contract for a higher price than the current near month contract. Using again the $50 per barrel price above to represent the front month price, the price of the next month contract could be $51 per barrel, that is, 2% more expensive than the front month contract. Hypothetically, and assuming no other changes to either prevailing crude oil prices or the price relationship between the spot price, the near month contract and the next month contract (and ignoring the impact of commission costs and the income earned on cash and/or cash equivalents), the value of the next month contract would fall as it approaches expiration and becomes the new near month contract with a price of $50. In this example, it would mean that the value of an investment in the second month would tend to rise slower than the spot price of crude oil, or fall faster. As a result, it would be possible in this hypothetical example for the spot price of crude oil to have risen 10% after some period of time, while the value of the investment in the second month futures contract will have risen only 8%, assuming contango is large enough or enough time has elapsed. Similarly, the spot price of crude oil could have fallen 10% while the value of an investment in the second month futures contract could have fallen 12%. Over time, if contango remained constant, the difference would continue to increase.

The chart below compares the price of the near month contract to the average price of the near 12-month contracts over the last 10 years (2001-2010) for light, sweet crude oil. When the price of the near month contract is higher than the average price of the near 12-month contracts, the market would be described as being in backwardation. When the price of the near month contract is lower than the average price of the near 12-month contracts, the market would be described as being in contango. Although the prices of the near month contract and the average price of the near 12-month contracts do tend to move up or down together, it can be seen that at times the near month prices are clearly higher than the average price of the near 12-month contracts (backwardation), and other times they are below the average price of the near 12-month contracts (contango).

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An alternative way to view the same data is to subtract the dollar price of the average dollar price of the near 12-month contracts for light, sweet crude oil from the dollar price of the near month contract for light, sweet crude oil. If the resulting number is a positive number, then the near month price is higher than the average price of the near 12 months and the market could be described as being in backwardation. If the resulting number is a negative number, then the near month price is lower than the average price of the near 12 months and the market could be described as being in contango. The chart below shows the results from subtracting the average dollar price of the near 12-month contracts from the near month price for the 10-year period between 2001 and 2010.

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An investment in a portfolio that involved owning only the near month contract would likely produce a different result than an investment in a portfolio that owned an equal number of each of the near 12 months worth of contracts. Generally speaking, when the crude oil futures market is in backwardation, the near month only portfolio would tend to have a higher total return than the 12-month portfolio. Conversely, if the crude oil futures market was in contango, the portfolio containing 12 months worth of contracts would tend to outperform the near month only portfolio. The chart below shows the annual results of owning a portfolio consisting of the near month contract and a portfolio containing the near 12 months worth of contracts. In addition, the chart shows the annual change in the spot price of light, sweet crude oil. In this example, each month, the near month only portfolio would sell the near month contract at expiration and buy the next month out contract. The portfolio holding an equal number of the near 12 months worth of contracts would sell the near month contract at expiration and replace it with the contract that becomes the new twelfth month contract.

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HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT USSO WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING.

FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

BECAUSE THERE ARE NO ACTUAL TRADING RESULTS TO COMPARE TO THE HYPOTHETICAL PERFORMANCE RESULTS, INVESTORS SHOULD BE PARTICULARLY WARY OF PLACING UNDUE RELIANCE ON THESE HYPOTHETICAL PERFORMANCE RESULTS.

As seen in the chart above, there have been periods of both positive and negative annual total returns for both hypothetical portfolios over the last 10 years. In addition, there have been periods during which the near month only approach had higher returns, and periods where the 12-month approach had higher total returns. The above chart does not represent the performance history of USSO or any affiliated funds.

Historically, the crude oil futures markets have experienced periods of contango and backwardation, with backwardation being in place more often than contango. During 2006 and the first half of 2007, these markets experienced contango. However, starting early in the third quarter of 2007, the crude oil futures market moved into backwardation. The crude oil markets remained in backwardation until late in the second quarter of 2008 when they moved into contango. The crude oil markets remained in contango until late in the third quarter of 2008, when the markets moved into backwardation. Early in the fourth quarter of 2008, the crude oil market moved back into contango and remained in contango for the balance of 2008. Throughout 2009, the crude oil market remained in contango. During parts of January and February 2009, the level of contango was unusually steep. Crude oil inventories, which reached historic levels in January and February 2009 and which appeared to be the primary cause of the steep level of contango, began to drop in March 2009 and continued to drop for the balance of 2009 and the beginning of 2010. The crude oil futures market remained in contango through 2010 and remained in contango during the nine months ended September 30, 2011.

Periods of contango or backwardation do not materially impact USSO s investment objective of having the percentage changes in its per unit NAV inversely track the percentage changes in the price of the Benchmark Futures Contract since the impact of backwardation and contango tend to equally impact the percentage changes in price of both USSO s units and the Benchmark Futures Contract. It is impossible to predict with any degree of certainty whether backwardation or contango will occur in the future. It is likely that both conditions will occur during different periods.

Crude Oil Market. During the nine months ended September 30, 2011, crude oil prices were impacted by several factors. On the consumption side, demand increased inside and outside the United States as global economic growth, including emerging economies such as China and India, continued to improve during the third quarter of 2011. On the supply side, efforts to reduce production by the Organization of the Petroleum Exporting Countries to more closely match global consumption were partially successful. In the summer of 2011, production was also disrupted by political unrest in the Middle East, particularly Libya, which reduced global supply by approximately 1.8 million barrels per day. On June 23, 2011, the United States and other industrial nations announced the release of 60 million barrels of crude oil from strategic stockpiles in an effort to reduce the price of fuel. This announcement briefly lowered the price of crude oil, but the release of oil from strategic stockpiles did not in and of itself have an impact on the price of crude oil as of September 30, 2011. Crude oil prices finished the third quarter of 2011 approximately 13.30% lower than at the beginning of the year, as the global economy continues to adjust to periods of slow recovery and economic growth. USCF believes that, should the global economic situation cease to improve, or decline, there is a meaningful possibility that crude oil prices could further retreat from their current levels.

Crude Oil Price Movements in Comparison to Other Energy Commodities and Investment Categories. USCF believes that investors frequently measure the degree to which prices or total returns of one investment or asset class move up or down in value in concert with another investment or asset class. Statistically, such a measure is usually done by measuring the correlation of the price movements of the two different investments or asset classes over some period of time. The correlation is scaled between 1 and -1, where 1 indicates that the two investment options move up or down in price or value together, known as positive correlation, and -1 indicates that they move in completely opposite directions, known as negative correlation. A correlation of 0 would mean that the movements of the two are neither positively nor negatively correlated, known as non-correlation. That is, the investment options sometimes move up and down together and other times move in opposite directions.

For the ten-year time period between September 30, 2001 and September 30, 2011, the chart below compares the monthly movements of crude oil prices versus the monthly movements of the prices of several other energy commodities, such as natural gas, heating oil, and unleaded gasoline, as well as several major non-commodity investment asset classes, such as large cap U.S. equities, U.S. government bonds and global equities. It can be seen that over this particular time period, the movement of crude oil on a monthly basis was not strongly correlated, positively or negatively, with the movements of large cap U.S. equities or U.S. government bonds. However, movements in crude oil had a strong positive correlation to movements in heating oil and unleaded gasoline. Finally, crude oil had a positive, but weaker, correlation with global equities and natural gas.

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Correlation Matrix September 30, 2001-2011	Large Cap U.S. Equities (S&P 500)	U.S. Gov t. Bonds (EFFAS U.S. Gov t. Bond Index)	Global Equities (FTSE World Index)	Unleaded Gasoline	Heating Oil	Natural Gas	Crude Oil
Large Cap U.S. Equities (S&P 500)	1.000	-0.342	0.968	0.181	0.190	0.044	**0.223**
U.S. Gov t. Bonds (EFFAS U.S. Gov t. Bond Index)		1.000	-0.311	-0.254	-0.126	0.096	**-0.179**
Global Equities (FTSE World Index)			1.000	0.240	0.273	0.099	**0.319**
Unleaded Gasoline				1.000	0.723	0.257	**0.760**
Heating Oil					1.000	0.505	**0.844**
Natural Gas						1.000	**0.405**
Crude Oil							**1.000**

Source: Bloomberg, NYMEX

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

The chart below covers a more recent, but much shorter, range of dates than the above chart. Over the one-year period ended September 30, 2011, crude oil had a strong positive correlation with domestic and global equities. The correlation of crude oil with the movements of unleaded gasoline, heating oil, natural gas and global and domestic equities was strong compared to what it had displayed over the ten-year period ended September 30, 2011. Notably, the correlation between crude oil and large cap U.S. equities, which had been essentially non-correlated over the ten-year period ended September 30, 2011, displayed results that indicated that they had a strong positive correlation over this shorter time period. Finally, the results showed that crude oil and U.S. government bonds, which had essentially been non-correlated for the ten-year period ended September 30, 2011, were negatively correlated over this more recent time period.

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Correlation Matrix 12 Months ended September 30, 2011	Large Cap U.S. Equities (S&P 500)	U.S. Gov t. Bonds (EFFAS U.S. Gov t. Bond Index)	Global Equities (FTSE World Index)	Unleaded Gasoline	Heating Oil	Natural Gas	Crude Oil
Large Cap U.S. Equities (S&P 500)	1.000	-0.734	0.986	0.691	0.702	0.543	**0.768**
U.S. Gov t. Bonds (EFFAS U.S. Gov t. Bond Index)		1.000	-0.677	-0.505	-0.477	-0.383	**-0.599**
Global Equities (FTSE World Index)			1.000	0.690	0.704	0.526	**0.762**
Unleaded Gasoline				1.000	0.854	0.631	**0.965**
Heating Oil					1.000	0.466	**0.871**
Natural Gas						1.000	**0.658**
Crude Oil							**1.000**

Source: Bloomberg, NYMEX

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS

Investors are cautioned that the historical price relationships between crude oil and various other energy commodities, as well as other investment asset classes, as measured by correlation may not be reliable predictors of future price movements and correlation results. The results pictured above would have been different if a different range of dates had been selected. USCF believes that crude oil has historically not demonstrated a strong correlation with equities or bonds over long periods of time. However, USCF also believes that in the future it is possible that crude oil could have long-term correlation results that indicate prices of crude oil more closely track the movements of equities or bonds. In addition, USCF believes that, when measured over time periods shorter than ten years, there will always be some periods where the correlation of crude oil to equities and bonds will be either more strongly positively correlated or more strongly negatively correlated than the long-term historical results suggest.

The correlations between crude oil, natural gas, heating oil and gasoline are relevant because USCF endeavors to invest USSO s assets in Futures Contracts and Other Crude Oil-Related Investments so that daily changes in percentage terms in USSO s NAV correlate as closely as possible with the inverse of the daily changes in percentage terms in the price of the Benchmark Futures Contract. If certain other fuel-based commodity futures contracts do not closely correlate with the Benchmark Futures Contract, then their use could lead to greater tracking error. As noted above, USCF also believes that the changes in percentage terms in the price of the Benchmark Futures Contract will closely correlate with changes in percentage terms in the spot price of light, sweet crude oil.

Critical Accounting Policies

Preparation of the condensed financial statements and related disclosures in compliance with accounting principles generally accepted in the United States of America requires the application of appropriate accounting rules and guidance, as well as the use of estimates. USSO s application of these policies involves judgments and actual results may differ from the estimates used.

USCF has evaluated the nature and types of estimates that it makes in preparing USSO s condensed financial statements and related disclosures and has determined that the valuation of its investments, which are not traded on a United States or internationally recognized futures exchange (such as forward contracts and over-the-counter contracts) involves a critical accounting policy. The values which are used by USSO for its Futures Contracts are provided by its commodity broker who uses market prices when available, while over-the-counter contracts are valued based on the present value of estimated future cash flows that would be received from or paid to a third party in settlement of these derivative contracts prior to their delivery date and valued on a daily basis. In addition, USSO estimates interest and dividend income on a daily basis using prevailing rates earned on its cash and cash equivalents. These estimates are adjusted to the actual amount received on a monthly basis and the difference, if any, is not considered material.

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Liquidity and Capital Resources

USSO has not made, and does not anticipate making, use of borrowings or other lines of credit to meet its obligations. USSO has met, and it is anticipated that USSO will continue to meet, its liquidity needs in the normal course of business from the proceeds of the sale of its investments, or from the Treasuries, cash and/or cash equivalents that it intends to hold at all times. USSO s liquidity needs include: redeeming units, providing margin deposits for its existing Futures Contracts or the purchase of additional Futures Contracts and posting collateral for its over-the-counter contracts, if applicable, and, except as noted below, payment of its expenses, summarized below under Contractual Obligations.

USSO currently generates cash primarily from: (i) the sale of baskets consisting of 100,000 units (Creation Baskets) and (ii) income earned on cash and/or cash equivalents. USSO has allocated substantially all of its net assets to trading in Crude Oil Interests. USSO invests in Crude Oil Interests to the fullest extent possible without being leveraged or unable to satisfy its current or potential margin or collateral obligations with respect to its investments in Futures Contracts and Other Crude Oil-Related Investments. A significant portion of USSO s NAV is held in cash and cash equivalents that are used as margin and as collateral for its trading in Crude Oil Interests. The balance of the net assets is held in USSO s account at its custodian bank. Income received from USSO s money market funds is paid to USSO. During the nine months ended September 30, 2011, USSO s expenses exceeded the income USSO earned and the cash earned from the sale of Creation Baskets. During the nine months ended September 30, 2011, USSO was forced to use other assets to pay cash expenses, which could cause a drop in USSO s NAV over time. To the extent expenses exceed income, USSO s NAV will be negatively impacted.

USSO s investments in Crude Oil Interests may be subject to periods of illiquidity because of market conditions, regulatory considerations and other reasons. For example, most commodity exchanges limit the fluctuations in futures contracts prices during a single day by regulations referred to as daily limits. During a single day, no trades may be executed at prices beyond the daily limit. Once the price of a futures contract has increased or decreased by an amount equal to the daily limit, positions in the contracts can neither be taken nor liquidated unless the traders are willing to effect trades at or within the specified daily limit. Such market conditions could prevent USSO from promptly liquidating its positions in Futures Contracts. During the nine months ended September 30, 2011, USSO was not forced to purchase or liquidate any of its positions while daily limits were in effect; however, USSO cannot predict whether such an event may occur in the future.

Since the initial offering of USSO, all payments with respect to USSO s expenses were paid by USCF. USSO does not have an obligation or intention to refund such payments by USCF. USCF is under no obligation to pay USSO s current or future expenses. Since the initial offering of units, USSO has been responsible for expenses relating to: (i) management fees, (ii) brokerage fees and commissions, (iii) licensing fees for the use of intellectual property, (iv) ongoing registration expenses in connection with offers and sales of its units subsequent to the initial offering, (v) other expenses, including certain tax reporting costs, (vi) fees and expenses of the independent directors of USCF and (vii) other extraordinary expenses not in the ordinary course of business, while USCF has been responsible for expenses relating to the fees of USSO s Marketing Agent, Administrator and Custodian and registration expenses relating to the initial offering of units. If USCF and USSO are unsuccessful in raising sufficient funds to cover these respective expenses or in locating any other source of funding, USSO will terminate and investors may lose all or part of their investment.

Market Risk

Trading in Futures Contracts and Other Crude Oil-Related Investments, such as forwards, involves USSO entering into contractual commitments to purchase or sell crude oil at a specified date in the future. The aggregate market value of the contracts will significantly exceed USSO s future cash requirements since USSO intends to close out its open positions prior to settlement. As a result, USSO is generally only subject to the risk of loss arising from the change in value of the contracts. USSO considers the fair value of its derivative instruments to be the unrealized gain or loss on the contracts. The market risk associated with USSO s commitments to purchase oil is limited to the aggregate market value of the contracts held. However, should USSO enter into a contractual commitment to sell oil, it would be required to make delivery of the oil at the contract price, repurchase the contract at prevailing prices or settle in cash. Since there are no limits on the future price of oil, the market risk to USSO could be unlimited.

USSO s exposure to market risk depends on a number of factors, including the markets for oil, the volatility of interest rates and foreign exchange rates, the liquidity of the Futures Contracts and Other Crude Oil-Related Investments markets and the relationships among the contracts held by USSO. Drastic market occurrences could ultimately lead to the loss of all or substantially all of an investor s capital.

Credit Risk

When USSO enters into Futures Contracts and Other Crude Oil-Related Investments, it is exposed to the credit risk that the counterparty will not be able to meet its obligations. The counterparty for the Futures Contracts traded on the NYMEX and on most other futures exchanges is the clearinghouse associated with the particular exchange. In general, in addition to margin required to be posted by the clearinghouse in connection with cleared trades, clearinghouses are backed by their members who may be required to share in the financial burden resulting from the nonperformance of one of their members and, therefore, this additional member support should significantly reduce credit risk. Some foreign exchanges are not backed by their clearinghouse members but may be backed by a consortium of banks or other financial institutions. There can be no assurance that any counterparty, clearinghouse, or their members or their financial backers will satisfy their obligations to USSO in such circumstances.

USCF attempts to manage the credit risk of USSO by following various trading limitations and policies. In particular, USSO generally posts margin and/or holds liquid assets that are approximately equal to the market value of its obligations to counterparties under the Futures Contracts and Other Crude Oil-Related Investments it holds. USCF has implemented procedures that include, but are not limited to, executing and clearing trades only with creditworthy parties and/or requiring the posting of collateral or margin by such parties for the benefit of USSO to limit its credit exposure. UBS Securities LLC, USSO s commodity broker, or any other broker that may be retained by USSO in the future, when acting as USSO s futures commission merchant in accepting orders to purchase or sell Futures Contracts on United States exchanges, is required by CFTC regulations to separately account for and segregate as belonging to USSO, all assets of USSO relating to domestic Futures Contracts trading. These futures commission merchants are not allowed to commingle USSO s assets with their other assets. In addition, the CFTC requires commodity brokers to hold in a secure account USSO s assets related to foreign Futures Contracts trading.

If, in the future, USSO purchases over-the-counter contracts, see *Item 3. Quantitative and Qualitative Disclosures About Market Risk* in this quarterly report on Form 10-Q for a discussion of over-the-counter contracts.

As of September 30, 2011, USSO held cash deposits and investments in money market funds in the amount of $12,656,575. This amount is subject to loss should USSO s custodian cease operations.

Off Balance Sheet Financing

As of September 30, 2011, USSO had no loan guarantee, credit support or other off-balance sheet arrangements of any kind other than agreements entered into in the normal course of business, which may include indemnification provisions relating to certain risks that service providers undertake in performing services which are in the best interests of USSO. While USSO s exposure under these indemnification provisions cannot be estimated, they are not expected to have a material impact on USSO s financial position.

Redemption Basket Obligation

In order to meet its investment objective and pay its contractual obligations described below, USSO requires liquidity to redeem units, which redemptions must be in blocks of 100,000 units called Redemption Baskets. USSO has to date satisfied this obligation by paying from the cash or cash equivalents it holds or through the sale of its Treasuries in an amount proportionate to the number of units being redeemed.

Contractual Obligations

USSO s primary contractual obligations are with USCF. In return for its services, USCF is entitled to a management fee calculated monthly as a fixed percentage of USSO s NAV, currently 0.60% of NAV on its average daily net assets.

USCF agreed to pay the start-up costs associated with the formation of USSO, primarily its legal, accounting and other costs in connection with USCF s registration with the CFTC as a CPO and the registration and listing of USSO and its units with the SEC, FINRA and the NYSE Arca (formerly, AMEX), respectively. However, since USSO s initial offering of units, offering costs incurred in connection with registering and listing additional units of USSO have been directly borne on an ongoing basis by USSO, and not by USCF.

USCF pays the fees of USSO s marketing agent, ALPS Distributors, Inc., and the fees of the custodian and transfer agent, Brown Brothers Harriman & Co. (BBH&Co.), as well as BBH&Co. s fees for performing administrative services, including those in connection with the preparation of USSO s condensed financial statements and its SEC and CFTC reports. USCF and USSO have also entered into a licensing agreement with the NYMEX pursuant to which USSO and the affiliated funds managed by USCF, other than USBO, USCI, USMI, CPER and USAG, pay a licensing fee to the NYMEX. USSO also pays the fees and expenses associated with its tax accounting and reporting requirements. USCF, though under no obligation to do so, agreed to pay certain costs for tax reporting and audit expenses normally borne by USSO to the extent that such expenses exceed 0.15% (15 basis points) of USSO s NAV, on an annualized basis, through at least December 31, 2011. USCF has no obligation to continue such payments into subsequent periods.

In addition to USCF s management fee, USSO pays its brokerage fees (including fees to a futures commission merchant), over-the-counter dealer spreads, any licensing fees for the use of intellectual property, and, subsequent to the initial offering, registration and other fees paid to the SEC, FINRA, or other regulatory agencies in connection with the offer and sale of units, as well as legal, printing, accounting and other expenses associated therewith, and extraordinary expenses. The latter are expenses not incurred in the ordinary course of USSO s business, including expenses relating to the indemnification of any person against liabilities and obligations to the extent permitted by law and under the LP Agreement, the bringing or defending of actions in law or in equity or otherwise conducting litigation and incurring legal expenses and the settlement of claims and litigation. Commission payments to a futures commission merchant are on a contract-by-contract, or round turn, basis. USSO also pays a portion of the fees and expenses of the independent directors of USCF. *See Note 3 to the Notes to Condensed Financial Statements (Unaudited) in Item 1 of this quarterly report on Form 10-Q.*

The parties cannot anticipate the amount of payments that will be required under these arrangements for future periods, as USSO s NAVs and trading levels to meet its investment objective will not be known until a future date. These agreements are effective for a specific term agreed upon by the parties with an option to renew, or, in some cases, are in effect for the duration of USSO s existence. Either party may terminate these agreements earlier for certain reasons described in the agreements.

As of September 30, 2011, USSO s portfolio consisted of 175 short Crude Oil Futures CL Contracts traded on the NYMEX. For a list of USSO s current holdings, please see USSO s website at www.unitedstatesshortoilfund.com.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Over-the-Counter Derivatives (Including Spreads and Straddles)

In the future, USSO may purchase over-the-counter contracts (OTC Contracts). Unlike most exchange-traded futures contracts or exchange-traded options on such futures, each party to an OTC Contract bears the credit risk that the other party may not be able to perform its obligations under its contract.

Some crude oil-based derivatives transactions contain fairly generic terms and conditions and are available from a wide range of participants. Other crude oil-based derivatives have highly customized terms and conditions and are not as widely available. Many of these OTC Contracts are cash-settled forwards for the future delivery of crude oil- or petroleum-based fuels that have terms similar to the Futures Contracts. Others take the form of swaps in which the two parties exchange cash flows based on pre-determined formulas tied to the spot price of crude oil, forward crude oil price or crude oil futures price. In these swaps, a party pays a fixed price per unit and the other pays a variable price based on the average price of future contracts for a specified period or the price on a specific date, with payments typically made between the parties on a net basis. For example, USSO may enter into OTC Contracts whose value will be tied to changes in the difference between the spot price of light, sweet crude oil, the price of Futures Contracts traded on the NYMEX and the prices of other Futures Contracts in which USSO may invest.

To reduce the credit risk that arises in connection with such contracts, USSO will generally enter into an agreement with each counterparty based on the Master Agreement published by the International Swaps and Derivatives Association, Inc. that provides for the netting of its overall exposure to its counterparty.

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USCF assesses or reviews, as appropriate, the creditworthiness of each potential or existing counterparty to an OTC Contract pursuant to guidelines approved by USCF s board of directors (the Board). Furthermore, USCF on behalf of USSO only enters into OTC Contracts with counterparties who are, or are affiliates of, (a) banks regulated by a United States federal bank regulator, (b) broker-dealers regulated by the SEC, (c) insurance companies domiciled in the United States, or (d) producers, users or traders of energy, whether or not regulated by the CFTC. Any entity acting as a counterparty shall be regulated in either the United States or the United Kingdom unless otherwise approved by the Board after consultation with its legal counsel. Existing counterparties are also reviewed periodically by USCF. USSO will also require that the counterparty be highly rated and/or provide collateral or other credit support. Even if collateral is used to reduce counterparty credit risk, sudden changes in the value of OTC transactions may leave a party open to financial risk due to a counterparty default since the collateral held may not cover a party s exposure on the transaction in such situations.

The Dodd-Frank Act requires the CFTC and SEC to establish both initial and variation margin requirements on all swaps that are not cleared by a registered clearing organization (*i.e*., uncleared swaps). In addition, the Dodd-Frank Act provides parties who post initial margin to a swap dealer or major swap participant with a statutory right to insist that such margin be held in a segregated account with an independent custodian. At this time, the CFTC has proposed rules addressing margin requirements and the statutory right of certain market participants but has not implemented any rules on these issues. On April 12, 2011, the Prudential Regulators and the CFTC issued proposed rules establishing minimum initial and variation margin collection requirements for Covered Swap Entities, which if adopted, would require Covered Swap Entities to collect minimum initial and variation margin amounts from swap counterparties. The public comment period for these rules was extended on June 23, 2011. The Prudential Regulators proposed rules would apply to those Covered Swap Entities that are regulated by the Prudential Regulators and the CFTC s proposed rules would apply to Covered Swap Entities that are not regulated by the Prudential Regulators.

The amount of initial and variation margin that Covered Swap Entities would be required to collect under the proposed rules varies based on whether the Covered Swap Entity s counterparty to a particular swap is (1) also a Covered Swap Entity, (2) a high-risk financial entity end-user, (3) a low-risk financial entity end-user (*e.g.,* financial entities subject to capital requirements imposed by bank or insurance regulators, that predominantly use swaps to hedge and that do not have significant swap exposure) or (4) a non-financial end-user. With certain exceptions not applicable to USSO and the affiliated funds managed by USCF, Covered Swap Entities would not be required to post initial or variation margin to any of their counterparties except for other Covered Swap Entities.

Covered Swap Entities and all financial entity end-users would be required to post initial margin and variation margin when they enter into swaps with Covered Swap Entities. Margin posted by low-risk financial entity end-users could be subject to thresholds under the proposed rules. As commodity pools, USSO and the affiliated funds managed by USCF would be high-risk financial entity end-users and would therefore have to post margin without thresholds.

The CFTC voted to propose rules for capital requirements for Covered Swap Entities that are not regulated by a Prudential Regulator. Covered Swap Entities that are regulated by a Prudential Regulator will be subject to the capital requirements already imposed by such Prudential Regulator. In general, higher levels of capital would be imposed on Covered Swap Entities that do not collect margin from their counterparties (or that collect margin subject to thresholds) in connection with their swaps, and could increase the costs of such swaps. On July 14, 2011, the CFTC issued an order providing temporary relief from certain swaps-related provisions of Title VII that would have automatically taken effect on July 16, 2011. The final order granted temporary exemptive relief that, by its terms, expires upon the earlier of the effective date of the required final rulemaking or December 31, 2011. On October 18, 2011, the CFTC issued an order, which modifies the July 14, 2011 order by extending the temporary exemptive relief to the earlier of the effective date of the required final rulemaking or July 16, 2012.

In general, valuing OTC derivatives is less certain than valuing actively traded financial instruments such as exchange-traded futures contracts and securities or cleared swaps because the price and terms on which such OTC derivatives are entered into or can be terminated are individually negotiated, and those prices and terms may not reflect the best price or terms available from other sources. In addition, while market makers and dealers generally quote indicative prices or terms for entering into or terminating OTC Contracts, they typically are not contractually obligated to do so, particularly if they are not a party to the transaction. As a result, it may be difficult to obtain an independent value for an outstanding OTC derivatives transaction.

USSO may employ spreads or straddles in its trading to mitigate the differences in its investment portfolio and its goal of inversely tracking the price of the Benchmark Futures Contract. USSO would use a spread when it chooses to take simultaneous long and short positions in futures written on the same underlying asset, but with different delivery months. The effect of holding such combined positions is to adjust the sensitivity of USSO to changes in the price relationship between futures contracts, which will expire sooner, and those that will expire later. USSO would use such a spread if USCF felt that taking such long and short positions, when combined with the rest of its holdings, would more closely track the investment goals of USSO, or if USCF felt it would lead to an overall lower cost of trading to achieve a given level of economic exposure to movements in oil prices. USSO would enter into a straddle when it chooses to take an option position consisting of a long (or short) position in both a call option and put option. The economic effect of holding certain combinations of put options and call options can be very similar to that of owning the underlying futures contracts. USSO would make use of such a straddle approach if, in the opinion of USCF, the resulting combination would more closely track the investment goals of USSO or if it would lead to an overall lower cost of trading to achieve a given level of economic exposure to movements in oil prices.

During the nine months ended September 30, 2011, USSO did not employ any hedging methods such as those described above since all of its investments were made over an exchange. Therefore, during such period, USSO was not exposed to counterparty risk.

USSO anticipates that the use of Other Crude Oil-Related Interests together with its investments in Futures Contracts will produce price and total return results that closely track the investment goals of USSO. However, there can be no assurance of this. OTC Contracts may result in higher transaction-related expenses than the brokerage commissions paid in connection with the purchase of Futures Contracts, which may impact USSO s ability to successfully track the Benchmark Futures Contract.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

USSO maintains disclosure controls and procedures that are designed to ensure that material information required to be disclosed in USSO s periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time period specified in the SEC s rules and forms.

The duly appointed officers of USCF, including its chief executive officer and chief financial officer, who perform functions equivalent to those of a principal executive officer and principal financial officer of USSO if USSO had any officers, have evaluated the effectiveness of USSO s disclosure controls and procedures and have concluded that the disclosure controls and procedures of USSO have been effective as of the end of the period covered by this quarterly report on Form 10-Q.

Change in Internal Control Over Financial Reporting

There were no changes in USSO s internal control over financial reporting during USSO s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, USSO s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed in USSO s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed on March 30, 2011, and the Quarterly Report on Form 10-Q for the period ended June 30, 2011, filed on August 15, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Removed and Reserved.

Item 5. Other Information.

Monthly Account Statements

Pursuant to the requirement under Rule 4.22 under the Commodity Exchange Act, each month USSO publishes an account statement for its unitholders, which includes a Statement of Income (Loss) and a Statement of Changes in NAV. The account statement is furnished to the SEC on a current report on Form 8-K pursuant to Section 13 or 15(d) of the Exchange Act and posted each month on USSO s website at www.unitedstatesshortoilfund.com.

Item 6. Exhibits.

Listed below are the exhibits, which are filed as part of this quarterly report on Form 10-Q (according to the number assigned to them in Item 601 of Regulation S-K):

Exhibit Number	Description of Document
10.1(1)	Third Amendment to License Agreement between United States Commodity Funds LLC and New York Mercantile Exchange, Inc.
31.1(2)	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2(2)	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1(2)	Certification by Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2(2)	Certification by Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS(3)	XBRL Instance Document
101.SCH(3)	XBRL Taxonomy Extension Schema
101.CAL(3)	XBRL Taxonomy Extension Calculation Linkbase
101.DEF(3)	XBRL Taxonomy Extension Definition Linkbase
101.LAB(3)	XBRL Taxonomy Extension Label Linkbase
101.PRE(3)	XBRL Taxonomy Extension Presentation Linkbase

(1) Incorporated by referent to the Registrant s Current Report on Form 8-K, filed on October 24, 2011.
(2) Filed herewith.
(3) In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

United States Short Oil Fund, LP (Registrant)

By: United States Commodity Funds LLC, its general partner

By: /s/ Nicholas D. Gerber
Nicholas D. Gerber
President and Chief Executive Officer
(Principal executive officer)
Date: November 14, 2011

By: /s/ Howard Mah
Howard Mah
Chief Financial Officer
(Principal financial and accounting officer)
Date: November 14, 2011

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t store managers under both the FLSA and state law should be dismissed. The court, however, certified an opt-in collective action under the FLSA on behalf of hourly sales associates. Approximately 4,300 plaintiffs remain in the case. In March 2014, the court denied the Company's motion to decertify the collective action and the case is now continuing.

In 2012, a former assistant store manager, on behalf of himself and those alleged to be similarly situated, filed a putative class action in a California state court, alleging the Company failed to provide rest breaks to assistant store managers. The alleged time period is July 13, 2008 to the present. Discovery is ongoing. The class has been certified and the case is proceeding to the liability phase.

In 2013, a former assistant store manager on behalf of himself and others alleged to be similarly aggrieved filed a representative Private Attorney General Act ("PAGA") claim under California law currently pending in federal court in California. The suit alleges that the Company failed to provide uninterrupted meal periods and rest breaks; failed to pay minimum, regular and overtime wages; failed to maintain accurate time records and wage statements; and failed to pay wages due upon termination of employment. Discovery has not commenced. A trial date has been set for October 26, 2015.

In May 2014, a former assistant store manager filed a putative class action in a California state court for alleged failure to provide meal periods, overtime, timely payment of wages during employment and upon termination, failure to provide accurate wage statements, as well as for alleged failure to indemnify employees for business expenses in violation of California labor laws. This matter is in early stages of litigation. Discovery has not commenced and no trial date has been set.

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In September 2013, district attorneys in California initiated an investigation of whether the Company properly disposed of certain damaged retail products under Federal and California state environmental law, primarily the Resource Conservation and Recovery Act. The Company is in the process of settling this matter and has fully accrued its estimated loss which is immaterial.

In May 2014, the US Consumer Product Safety Commission ("CPSC") began a staff investigation of circumstances related to 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. The outcome of this matter cannot be determined at this time.

In July and August 2014, several shareholders of Family Dollar Stores, Inc. (“Family Dollar”) filed class actions, now consolidated into one class action, in Delaware chancery court against Family Dollar’s CEO and board members alleging breach of fiduciary duty. Dollar Tree and Family Dollar were also named as defendants for allegedly aiding and abetting the other defendants. The claimed breach derives from the execution of the merger agreement dated July 27, 2014, between Dollar Tree and Family Dollar, which is alleged to offer unfair and inadequate consideration for Family Dollar stock. The class action, among other things, seek to prevent the merger, obtain higher merger consideration or seek monetary damages. The Delaware Chancery Court and appellate court refused to issue an injunction against the Family Dollar shareholder vote in favor of the merger.

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

Resolved
A supermarket filed a lease exclusive case and a second companion unfair competition case against the Company in a Pennsylvania state court. These two cases were settled in fiscal 2014 for immaterial amounts.

A supermarket filed a lease exclusive case against the Company in Pennsylvania state court. This case was settled for an immaterial amount in fiscal 2014.

In 2012, two former store managers, under California's Labor Code and PAGA, instituted suit in the federal court in California on behalf of themselves and others alleged to be similarly aggrieved in the state of California, alleging they were misclassified by the Company as exempt employees. The Company settled with one plaintiff for an immaterial amount. The Company prevailed at trial in November 2013 with the other plaintiff. A final Order has been entered in favor of the Company and the Plaintiff waived his right to appeal.

NOTE 5 - LONG-TERM DEBT

Long-term debt at January 31, 2015 and February 1, 2014 consists of the following:

(in millions)	January 31, 2015	February 1, 2014
$750.0 million Senior Notes, fixed interest rates payable semi-annually, January 15 and July 15	$750.0	$750.0
$750.0 million Unsecured Credit Agreement, interest payable monthly at LIBOR, plus 0.90%, which was 1.07% at January 31, 2015	—	—
Demand Revenue Bonds, repaid March 2014	—	12.8
$7.0 million Forgivable Promissory Note, interest payable beginning in November 2017 at a rate of 1%, principal payable beginning November 2017	7.0	7.0
Total long-term debt	$757.0	$769.8
Less current portion	—	12.8
Long-term debt, excluding current portion	$757.0	$757.0

Maturities of long-term debt are as follows: 2017 - $0.2 million, 2018 - $1.4 million, 2019 - $1.4 million and after 2019 - $754.0 million

Senior Notes

The Company entered into a Note Purchase Agreement on September 16, 2013 with institutional accredited investors in which the Company issued and sold $750.0 million of Senior Notes (the "Notes") in an offering exempt from the registration requirements of the Securities Act of 1933. The Notes consist of three tranches: $300.0 million of 4.03% Senior Notes due September 16, 2020; $350.0 million of 4.63% Senior Notes due September 16, 2023; and $100.0 million of 4.78% Senior Notes due September 16, 2025. Interest on the Notes is payable semi-annually on January 15 and July 15 of each year, beginning January 15, 2014. The Notes are unsecured and rank pari passu in right of repayment with the Company's other senior unsecured indebtedness. The Company may prepay some or all of the Notes at any time in an amount not less than 5% of the original aggregate principal amount of the Notes to be prepaid, at a price equal to the sum of (a) 100% of the principal amount thereof, plus accrued and unpaid interest, and (b) the applicable make-whole amount. In the event of a change in control (as defined in the Note Purchase Agreement), the Company may be required to prepay the Notes. The Note Purchase Agreement contains customary affirmative and restrictive covenants. The Company used the net proceeds of the Notes to finance share repurchases.

On January 20, 2015, the Company entered into the First Amendment (the “ Notes Amendment”) to the Note Purchase Agreement, with a majority of the noteholders party thereto. The Notes Amendment was entered into in connection with the Company’s pending acquisition (the “Acquisition”) of Family Dollar Stores, Inc. (“Family Dollar”). The Notes Amendment will, among other things, allow a newly-formed subsidiary of the Company to issue debt and hold the proceeds in escrow pending consummation of the Acquisition (such debt, the “Escrow Debt”). Pursuant to the terms of the Notes Amendment, in certain circumstances the amount of interest due on the Notes may increase by 1.0% per annum. The Notes Amendment also contains certain negative covenants and other restrictions applicable during the period in which any Escrow Debt is outstanding.

Unsecured Credit Agreement

In 2012, the Company entered into a five-year Unsecured Credit Agreement (the "Agreement") which provides for a $750.0 million revolving line of credit, including up to $150.0 million in available letters of credit. The interest rate on the facility is based, at the Company’s option, on a LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The revolving line of credit also bears a facilities fee, calculated as a percentage, as defined, of the amount available under the line of credit, payable quarterly. The Agreement, among other things, requires the maintenance of certain specified financial ratios, restricts the payment of certain distributions and prohibits the incurrence of certain new indebtedness.

On September 16, 2013, the Company amended the Agreement to enable the issuance of the Notes.

On August 15, 2014, the Company entered into an amendment (the "Credit Amendment") to the Agreement. The Credit Amendment further amends the Agreement to facilitate the issuance and/or borrowings of certain third-party debt financing that may be used by the Company to finance the Acquisition. The Credit Amendment also facilitates escrow arrangements related to the Acquisition.

Demand Revenue Bonds

In 1998, the Company entered into an unsecured Loan Agreement with the Mississippi Business Finance Corporation (MBFC) under which the MBFC issued Taxable Variable Rate Demand Revenue Bonds (the Bonds) in an aggregate principal amount of $19.0 million to finance the acquisition, construction, and installation of land, buildings, machinery and equipment for the Company's distribution facility in Olive Branch, Mississippi. The Bonds did not contain a prepayment penalty as long as the interest rate remained variable. The Bonds contained a demand provision and, therefore, were classified as current liabilities. On March 3, 2014, the Company repaid the $12.8 million outstanding under the Demand Revenue Bonds and the debt was retired.

Forgivable Promissory Note

In 2012, the Company entered into a promissory note with the state of Connecticut under which the state loaned the Company $7.0 million in connection with the Company's acquisition, construction and installation of land, building, machinery and equipment for the Company's distribution facility in Windsor, Connecticut. If certain performance targets are met, the loan and any accrued interest will be forgiven in fiscal 2017. If the performance targets are not met, the loan and accrued interest must be repaid over a five-year period beginning in fiscal 2017.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

Hedging Derivatives

In order to manage fluctuations in cash flows resulting from changes in diesel fuel costs, the Company entered into fuel derivative contracts with third parties. The Company hedged 1.6 million, 2.8 million and 4.8 million gallons of diesel fuel in 2014, 2013 and 2012, respectively. These hedges represented approximately 10%, 20% and 35% of the total domestic truckload fuel needs in 2014, 2013 and 2012, respectively. The Company currently has fuel derivative contracts to hedge 6.6 million gallons of diesel fuel, or approximately 40% of the Company's domestic truckload fuel needs from February 2015 through January 2016. Under these contracts, the Company pays the third party a fixed price for diesel fuel and receives variable diesel fuel prices at amounts approximating current diesel fuel costs, thereby creating the economic equivalent of a fixed-rate obligation. These derivative contracts do not qualify for hedge accounting and therefore all changes in fair value for these derivatives are included under "Other (income) expense, net" on the accompanying consolidated income statements. The fair value of these contracts at January 31, 2015 was a liability of $5.7 million.

NOTE 7 - SHAREHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue 10,000,000 shares of Preferred Stock, $0.01 par value per share. No preferred shares are issued and outstanding at January 31, 2015 and February 1, 2014.

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

	Year Ended		
(in millions, except per share data)	January 31, 2015	February 1, 2014	February 2, 2013
Basic net income per share:			
Net income	$599.2	$596.7	$619.3
Weighted average number of shares outstanding	206.0	218.1	229.3
Basic net income per share	$2.91	$2.74	$2.70
Diluted net income per share:			
Net income	$599.2	$596.7	$619.3
Weighted average number of shares outstanding	206.0	218.1	229.3
Dilutive effect of stock options and restricted stock (as determined by applying the treasury stock method)	1.0	1.0	1.4
Weighted average number of shares and dilutive potential shares outstanding	207.0	219.1	230.7
Diluted net income per share	$2.90	$2.72	$2.68

At January 31, 2015, February 1, 2014 and February 2, 2013, substantially all of the stock options outstanding were included in the calculation of the weighted average number of shares and dilutive potential shares outstanding.
Share Repurchase Programs
The Company repurchases shares on the open market and under Accelerated Share Repurchase agreements.

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

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

The number of shares to be received by the Company under the uncollared agreement was determined based on the weighted average market price of the Company's common stock, less a discount, during a calculation period ending on or before June 2014. The Company received an initial delivery of 7.2 million shares during the year ended February 1, 2014. On February 14, 2014 the uncollared agreement concluded and the Company received an additional 1.9 million shares resulting in a total of 9.1 million shares repurchased under this agreement.
On November 21, 2011, the Company entered into an agreement to repurchase $300.0 million of the Company’s common shares under a “collared” Accelerated Share Repurchase Agreement (ASR). Under this agreement, the Company initially received 6.8 million shares through December 13, 2011, representing the minimum number of shares to be received based on a calculation using the “cap” or high-end of the price range of the “collar.” The ASR concluded on March 28, 2012 and the Company received an additional 0.5 million shares under the "collared" agreement resulting in 7.3 million total shares being repurchased under this ASR. The number of shares was determined based on the weighted average market price of the Company's common stock, less a discount, during a

specified period of time.

The Company did not repurchase any shares of common stock on the open market in 2014. The Company repurchased 2.4 million shares for $112.1 million on the open market in fiscal 2013 and 7.7 million shares for $340.2 million on the open market in fiscal 2012. At January 31, 2015, the Company had $1.0 billion remaining under Board repurchase authorization.

NOTE 8 – EMPLOYEE BENEFIT PLANS

Profit Sharing and 401(k) Retirement Plan

The Company maintains a defined contribution profit sharing and 401(k) plan which is available to all employees over 21 years of age who have completed one year of service in which they have worked at least 1,000 hours. Eligible employees may make elective salary deferrals. The Company may make contributions at its discretion.

Contributions to and reimbursements by the Company of expenses of the plan included in "selling, general and administrative expenses" in the accompanying consolidated income statements were as follows:

Year ended January 31, 2015	$41.1 million
Year ended February 1, 2014	$35.8 million
Year ended February 2, 2013	$40.7 million

Eligible employees vest in the Company's profit sharing contributions based on the following schedule:

20% after two years of service
40% after three years of service
60% after four years of service
100% after five years of service

All eligible employees are immediately vested in any Company match contributions under the 401(k) portion of the plan.

Deferred Compensation Plan

The Company has a deferred compensation plan which provides certain officers and executives the ability to defer a portion of their base compensation and bonuses and invest their deferred amounts. The plan is a nonqualified plan and the Company may make discretionary contributions. The deferred amounts and earnings thereon are payable to participants, or designated beneficiaries, at specified future dates, or upon retirement or death. Total cumulative participant deferrals and earnings were approximately $5.5 million and $5.1 million, respectively, at January 31, 2015 and February 1, 2014, and are included in "other liabilities" on the accompanying consolidated balance sheets. The related assets are included in "other assets, net" on the accompanying consolidated balance sheets. The Company did not make any discretionary contributions in the years ended January 31, 2015, February 1, 2014, or February 2, 2013.

NOTE 9 - STOCK-BASED COMPENSATION PLANS

Fixed Stock Option Compensation Plans

Under the Equity Incentive Plan (EIP), the Company granted up to 18.0 million shares of its Common Stock, plus any shares available for future awards under the 1995 Stock Incentive Plan, to the Company's employees, including executive officers and independent contractors. The EIP permitted the Company to grant equity awards in the form of stock options, stock appreciation rights and restricted stock. The exercise price of each stock option granted equaled the market price of the Company's stock at the date of grant. The options generally vested over a three -year period and have a maximum term of 10 years. This plan was terminated on June 16, 2011 and replaced with the Company's Omnibus Incentive Plan (Omnibus Plan).

The Executive Officer Equity Incentive Plan (EOEP) was available only to the Chief Executive Officer and certain other executive officers. These officers no longer received awards under the EIP. The EOEP allowed the Company to grant the same type of equity awards as the EIP. These awards generally vested over a three-year period, with a maximum term of 10 years for stock options. This plan was terminated on June 16, 2011 and replaced with the Omnibus Plan.

Stock appreciation rights may be awarded alone or in tandem with stock options. When the stock appreciation rights are exercisable, the holder may surrender all or a portion of the unexercised stock appreciation right and receive in exchange an amount equal to the excess of the fair market value at the date of exercise over the fair market value at the date of the grant. No stock appreciation rights have been granted to date.

Any restricted stock or RSUs awarded are subject to certain general restrictions. The restricted stock shares or units may not be sold, transferred, pledged or disposed of until the restrictions on the shares or units have lapsed or have been removed under the provisions of the plan. In addition, if a holder of restricted shares or units ceases to be employed by the Company, any shares or units in which the restrictions have not lapsed will be forfeited.

The 2003 Non-Employee Director Stock Option Plan (NEDP) provided non-qualified stock options to non-employee members of the Company's Board of Directors. The stock options were functionally equivalent to the options issued under the EIP discussed above. The exercise price of each stock option granted equaled the closing market price of the Company’s stock on the date of grant. The options generally vested immediately. This plan was terminated on June 16, 2011 and replaced with the Omnibus Plan.

The 2003 Director Deferred Compensation Plan permits any of the Company's directors who receive a retainer or other fees for Board or Board committee service to defer all or a portion of such fees until a future date, at which time they may be paid in cash or shares of the Company's common stock, or receive all or a portion of such fees in non-statutory stock options. Deferred fees that are paid out in cash will earn interest at the 30-year Treasury Bond Rate. If a director elects to be paid in common stock, the number of shares will be determined by dividing the deferred fee amount by the closing market price of a share of the Company's common stock on the date of deferral. The number of options issued to a director will equal the deferred fee amount divided by 33% of the price of a share of the Company's common stock. The exercise price will equal the fair market value of the Company's common stock at the date the option is issued. The options are fully vested when issued and have a term of 10 years.

Under the Omnibus Plan, the Company may grant up to 4.0 million shares of its Common Stock, plus any shares available for future awards under the EIP, EOEP, or NEDP plans, to the Company’s employees, including executive officers and independent contractors. The Omnibus Plan permits the Company to grant equity awards in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance bonuses, performance units, non-employee director stock options and other equity-related awards. These awards generally vest over a three-year period with a maximum term of 10 years.

Restricted Stock

The Company granted 0.5 million, 0.5 million and 0.5 million service-based RSUs, net of forfeitures in 2014, 2013 and 2012, respectively, from the Omnibus Plan to the Company’s employees and officers. The fair value of all 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 $22.2 million, $21.1 million and $21.9 million of expense related to service-based RSUs during 2014, 2013 and 2012, respectively. As of January 31, 2015, there was approximately $21.7 million of total unrecognized compensation expense related to these RSUs which is expected to be recognized over a weighted-average period of 21 months.

In 2014, the Company granted 0.2 million RSUs from the Omnibus Plan to certain officers of the Company, contingent on the Company meeting certain performance targets in 2014 and future service of these officers through March 2017. The Company met these performance targets in fiscal 2014; therefore, the fair value of these RSUs of $10.0 million is being expensed over the service period or a shorter period based on the retirement eligibility of the grantee. The Company recognized $6.7 million of expense related to these RSUs in 2014. The fair value of these RSUs was determined using the Company’s closing stock price on the grant date.

In 2013, the Company granted 0.2 million RSUs from the Omnibus Plan to certain officers of the Company, contingent on the Company meeting certain performance targets in 2013 and future service of these officers through March 2016. The Company met these performance targets in fiscal 2013; therefore, the fair value of these RSUs of $9.9 million is being expensed over the service period or a shorter period based on the retirement eligibility of the grantee. The Company recognized $1.1 million and $6.5 million of expense related to these RSUs in 2014 and 2013, respectively. The fair value of these RSUs was determined using the Company’s closing stock price on the grant date.

In 2012, the Company granted 0.2 million RSUs from the Omnibus Plan to certain officers of the Company, contingent on the Company meeting certain performance targets in 2012 and future service of these officers through March 2015. The Company met these performance targets in fiscal 2012; therefore, the fair value of these RSUs of $8.1 million is being expensed over the service period or a shorter period based on the retirement eligibility of the grantee. The Company recognized $0.9 million, $1.1 million and $5.7 million of expense related to these RSUs in 2014, 2013 and 2012, respectively. The fair value of these RSUs was determined using the Company’s closing stock

price on the grant date.
In 2014, the Company granted RSUs with an estimated fair value of $2.0 million from the Omnibus Plan to certain officers of the Company. Each officer has the opportunity to earn an amount between zero percent (0%) and two hundred percent (200%) of the individual target award contingent on the Company meeting certain performance targets for the period beginning on February 2, 2014 and ending on January 28, 2017. Providing 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 over the performance period or a

shorter period based on the retirement eligibility of the grantee. The Company recognized $1.0 million of expense related to these RSUs in 2014. The estimated fair value of these RSUs was determined using the Company's closing stock price on the grant date.

In 2013, the Company granted RSUs with an estimated fair value of $1.7 million from the Omnibus Plan to certain officers of the Company. Each officer has the opportunity to earn an amount between zero percent (0%) and two hundred percent (200%) of the individual target award contingent on the Company meeting certain performance targets for the period beginning on February 3, 2013 and ending on January 30, 2016. Providing the vesting conditions are satisfied, the awards will vest at the end of the performance period. The estimated value is being expensed over the performance period or a shorter period based on the retirement eligibility of the grantee. The Company recognized $0.4 million and $1.0 million of expense related to these RSUs in 2014 and 2013. The estimated fair value of these RSUs was determined using the Company's closing stock price on the grant date.

In 2012, the Company granted RSUs with an estimated fair value of $1.7 million from the Omnibus Plan to certain officers of the Company. Each officer had the opportunity to earn an amount between zero percent (0%) and two hundred percent (200%) of the individual target award contingent on the Company meeting certain performance targets for the period beginning on January 29, 2012 and ending on January 31, 2015. The estimated fair value was being expensed over the performance period or a shorter period based on the retirement eligibility of the grantee. The Company recognized $0.2 million, $0.2 million and $1.0 million of expense related on these RSUs in 2014, 2013 and 2012, respectively. The estimated fair value of these RSUs was determined using the Company’s closing stock price on the grant date.

In 2012, the Company granted 0.2 million RSUs with a fair value of $10.0 million from the Omnibus Plan to the Chief Executive Officer of the Company, contingent on the Company meeting certain performance targets for the period beginning July 29, 2012 and ending on August 3, 2013 and the grantee completing a five-year service requirement. The fair value of these RSUs is being expensed ratably over the five-year vesting period. The Company recognized $2.0 million, $2.0 million and $1.3 million of expense related to these RSUs in 2014, 2013 and 2012. The fair value of these RSUs was determined using the Company's closing stock price on the grant date.

The following table summarizes the status of RSUs as of January 31, 2015, and changes during the year then ended:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at February 1, 2014	1,723,634	$41.64
Granted	751,606	52.52
Vested	(798,015)	39.91
Forfeited	(93,945)	48.38
Nonvested at January 31, 2015	1,583,280	$48.48

In connection with the vesting of RSUs in 2014, 2013 and 2012, certain employees elected to receive shares net of minimum statutory tax withholding amounts which totaled $15.8 million, $18.6 million and $22.1 million, respectively. The total fair value of the restricted shares vested during the years ended January 31, 2015, February 1, 2014 and February 2, 2013 was $31.8 million, $29.7 million and $26.6 million, respectively.

Stock Options

Stock options granted in 2014, 2013 and 2012 were to directors under the Director Deferred Compensation Plan, vest immediately and are expensed on the grant date.

The following tables summarize information about options outstanding at January 31, 2015 and changes during the year then ended.

Stock Option Activity

	January 31, 2015			
	Shares	Weighted Average Per Share Exercise Price	Weighted Average Remaining Term	Aggregate Intrinsic Value (in millions)
Outstanding, beginning of period	568,818	$13.40		
Granted	12,150	57.37		
Exercised	(85,235)	9.04		
Forfeited	(4,500)	8.42		
Outstanding, end of period	491,233	$15.29	3.4	$27.4
Options vested at January 31, 2015	491,233	$15.29	3.4	$27.4
Options exercisable at end of period	491,233	$15.29	3.4	$27.4

		Options Outstanding		Options Exercisable	
Range of Exercise Prices	Options Outstanding at January 31, 2015	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Options Exercisable at January 31, 2015	Weighted Avg. Exercise Price
$7.21 to $9.71	216,105	2.1	$8.88	216,105	$8.88
$9.72 to $14.52	192,214	3.5	13.07	192,214	13.07
$14.53 to $19.93	15,516	4.9	17.21	15,516	17.21
$19.94 to $28.36	21,132	5.8	25.09	21,132	25.09
$28.37 to $70.38	46,266	8.1	49.29	46,266	49.29
$7.21 to $70.38	491,233	3.4	$15.29	491,233	$15.29

The intrinsic value of options exercised during 2014, 2013 and 2012 was approximately $3.7 million, $5.6 million and $21.8 million, respectively.

Employee Stock Purchase Plan

Under the Dollar Tree, Inc. Employee Stock Purchase Plan (ESPP), the Company is authorized to issue up to 5,278,125 shares of Common Stock to eligible employees. Under the terms of the ESPP, employees can choose to have up to 10% of their annual base earnings withheld to purchase the Company's common stock. The purchase price of the stock is 85% of the lower of the price at the beginning or the end of the quarterly offering period. Under the ESPP, the Company has sold 4,786,751 shares as of January 31, 2015.

The fair value of the employees' purchase rights is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Fiscal 2013		Fiscal 2012		Fiscal 2011	
Expected term	3 months		3 months		3 months	
Expected volatility	8.8	%	11.6	%	11.9	%
Annual dividend yield	—	%	—	%	—	%
Risk free interest rate	—	%	—	%	0.1	%

The weighted average per share fair value of purchase rights granted in 2014, 2013 and 2012 was $8.17, $8.26 and $6.97, respectively. Total expense recognized for these purchase rights was $0.8 million in 2014,$1.0 million in 2013 and $0.9 million in 2012.

NOTE 10 – SALE OF INVESTMENT

On September 28, 2012, the Company sold its ownership interest in Ollie's Holdings, Inc., which it originally acquired in 2003. As a result of the sale, the Company recorded a pre-tax gain of $60.8 million in 2012 which is included in “Other (income) expense, net” on the accompanying consolidated income statements. The gain, net of tax, was $38.1 million and increased earnings per diluted share for 2012 by $0.16.

NOTE 11 – PENDING ACQUISITION AND RELATED DEBT

Pending Acquisition

On July 27, 2014, the Company executed an Agreement and Plan of Merger to acquire Family Dollar in a cash and stock transaction (the "Acquisition"). Under the Acquisition, which has been unanimously approved by the Boards of Directors of both companies, the Family Dollar shareholders will receive $59.60 in cash plus no more than 0.3036 and no less than 0.2484 shares of the Company's common stock for each share of Family Dollar common stock they own. The Acquisition was approved by Family Dollar shareholders on January 22, 2015 and is subject to the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and satisfaction or waiver of the other customary closing conditions.

On or before closing, the Company expects to incur approximately $210.0 million in acquisition-related expenses, of which $75.2 million were incurred in 2014 including $33.5 million that was paid in 2014. During 2014, $28.5 million of acquisition-related expenses were recorded in "selling, general and administrative expenses" and $46.7 million related to commitment fees were recorded in "interest expense, net." The Company expects to incur an additional $22.6 million in commitment fees in the first quarter of fiscal 2015. The Company also expects to expend approximately $174.0 million in capitalizable debt issuance costs related to the financing of the Acquisition. Of this amount, $70.2 million was included in "other assets, net" at January 31, 2015. In addition, $112.0 million of acquisition-related expenses, capitalizable debt issuance costs and interest expense have been accrued in "other current liabilities" at January 31, 2015.

For additional discussion of the Acquisition, please see the "Pending Acquisition" section included in "Part I. Financial Information, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." of this Form 10-K.

Related Debt

Acquisition Notes

On February 23, 2015, a wholly owned subsidiary of the Company completed the offering of $750,000,000 aggregate principal amount of 5.250% senior notes due 2020 (the “2020 notes”) and $2,500,000,000 aggregate principal amount of 5.750% 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.
The Company expects to use the proceeds of the acquisition notes to finance in part the Acquisition. The proceeds of the 2020 notes and the 2023 notes will be held in, and secured by liens on, separate escrow accounts with U.S. Bank National Association, as escrow agent (the “Escrow Agent”), pending consummation of the Acquisition. The Company expects that, in

connection with the consummation of the Acquisition, the wholly owned subsidiary that issued the acquisition notes will merge with and into the Company, the Company will assume the obligations in respect of the acquisition notes, and the acquisition notes will be jointly and severally guaranteed on an unsecured, unsubordinated basis, subject to certain exceptions, by each of the Company's subsidiaries that guarantees the obligations under the Company's new senior secured credit facilities or certain other indebtedness, including Family Dollar and certain of its subsidiaries.
The 2020 notes, which mature on March 1, 2020, were issued pursuant to an indenture, dated as of February 23, 2015, with U.S. Bank National Association, as trustee (the "2020 notes indenture"). The 2023 notes, which mature on March 1, 2023, were issued pursuant to an indenture, dated as of February 23, 2015, with U.S. Bank National Association, as trustee (the "2023 notes indenture", and together with the 2020 notes indenture, the "indentures").
The indentures provide that if the Acquisition is not consummated before August 28, 2015, if the Escrow Agent has not received certain additional monthly deposits by certain dates, or upon the occurrence of certain other events, the acquisition notes will be subject to a special mandatory redemption at a price of 100% of the gross proceeds of the acquisition notes offered, plus accrued and unpaid interest to, but excluding, the date of redemption.
Interest on the acquisition notes is due semiannually on March 1 and September 1 of each year, commencing on September 1, 2015.
The indentures contain covenants that, from and after the date of the Acquisition, will limit the ability of the Company and certain of its subsidiaries to, among other things and subject to certain significant exceptions: (i) incur, assume or guarantee additional indebtedness; (ii) declare or pay dividends or make other distributions with respect to, or purchase or otherwise acquire or retire for value, equity interests; (iii) make any principal payment on, or redeem or repurchase, subordinated debt; (iv) make loans, advances or other investments; (v) incur liens; (vi) sell or otherwise dispose of assets, including capital stock of subsidiaries; (vii) consolidate or merge with or into, or sell all or substantially all assets to, another person; and (viii) enter into transactions with affiliates. The indentures also provide for certain events of default, which, if any of them occurs, would permit or require the principal, premium, if any, interest and any other monetary obligations on all the then outstanding acquisition notes under the applicable indenture to be declared immediately due and payable.
Credit Facility and Term Loan
On March 9, 2015, a wholly owned subsidiary of the Company entered into a credit agreement, with JPMorgan Chase Bank, N.A., as administrative agent, providing for $6,200 million in senior secured credit facilities (the "New Senior Secured Credit Facilities") consisting of a $1,250 million revolving credit facility (the "New Revolving Credit Facility") and $4,950 million of term loan facilities (the "New Term Loan Facilities"). The New Term Loan Facilities consist of a $1,000 million Term Loan A tranche and a $3,950 million Term Loan B tranche. The New Revolving Credit Facility and the borrowings under the Term Loan A tranche will mature five years after the closing of the Acquisition, unless any of the 2020 notes remain outstanding as of 91 days prior to their stated maturity, in which case the New Revolving Credit Facility and the borrowings under the Term Loan A tranche will mature at such time. The borrowings under the Term Loan B tranche will mature seven years after the closing of the Acquisition.
The proceeds of the borrowings under the Term Loan B tranche were deposited in an escrow account (separate from the escrow accounts related to the acquisition notes) and will be held in escrow prior to the closing of the Acquisition. Upon the consummation of the Acquisition, the Company will become the borrower under the New Senior Secured Credit Facilities and will draw the term loans under the Term Loan A facility and will have the ability to borrow under the New Revolving Credit Facility.
The New Senior Secured Credit Facilities will not be guaranteed by the Company or any of its subsidiaries prior to the consummation of the Acquisition, but upon consummation of the Acquisition the New Senior Secured Credit Facilities will be guaranteed by certain of the Company's direct or indirect wholly owned U.S. subsidiaries, including Family Dollar and certain of its subsidiaries (collectively, the "Credit Agreement Guarantors"). Upon the consummation of the Acquisition, the Company expects the New Senior Secured Credit Facilities will be secured by a security interest in substantially all of the assets of the Company and the Credit Agreement Guarantors, subject to certain exceptions.
The loans under the Term Loan A tranche and the New Revolving Credit Facility will bear interest at LIBOR plus 2.25% per annum (or a base rate plus 1.25%), and the Term Loan B tranche of the New Senior Secured Credit

Facilities will bear interest at LIBOR plus 3.50% per annum (or a base rate plus 2.50%). The Term Loan B tranche will be subject to a "LIBOR floor" of 0.75%. The Term Loan A tranche of the New Term Loan Facilities will require quarterly amortization payments of 1.25% of the original principal amount thereof in the first year following the consummation of the Acquisition, 2.5% of the original principal amount thereof in the second year following the Acquisition, and 3.75% of the original principal amount

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thereof thereafter and the Term Loan B tranche requires quarterly amortization payments of 0.25% of the original principal amount thereof after the closing of the Acquisition. The New Term Loan Facilities also require mandatory prepayments in connection with certain asset sales and out of excess cash flow, among other things, and subject in each case to certain significant exceptions. The Company expects to pay certain commitment fees in connection with the New Revolving Credit Facility. Additionally, the Term Loan B tranche of the New Term Loan Facilities will require the Company to pay a 1.00% prepayment fee if the loans thereunder are subject to certain repricing transactions before March 9, 2016.

The New Senior Secured Credit Facilities contain representations and warranties, events of default and affirmative and negative covenants that apply, in certain circumstances, before and after the closing of the Acquisition and are customary for similar financings. These include, among other things and subject to certain significant exceptions, restrictions on the Company's ability to declare or pay dividends, repay the acquisition notes, create liens, incur additional indebtedness, make investments, dispose of assets and merge or consolidate with any other person. In addition, a financial maintenance covenant based on the Company’s consolidated first lien secured net leverage ratio will apply to the New Revolving Credit Facility and the Term Loan A tranche of the New Term Loan Facilities after the closing of the Acquisition.

NOTE 12 - QUARTERLY FINANCIAL INFORMATION (Unaudited)

The following table sets forth certain items from the Company's unaudited consolidated income statements for each quarter of fiscal year 2014 and 2013. The unaudited information has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this report and includes all adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of the financial data shown. The operating results for any quarter are not necessarily indicative of results for a full year or for any future period.

(dollars in millions, except diluted net income per share data)	First Quarter (1)	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2014:				
Net sales	$2,000.3	$2,031.1	$2,095.2	$2,475.6
Gross profit	$696.6	$694.1	$725.3	$918.1
Operating income	$231.9	$205.0	$219.7	$383.6
Net income	$138.3	$121.5	$133.0	$206.6
Diluted net income per share	$0.67	$0.59	$0.64	$1.00
Stores open at end of quarter	5,080	5,166	5,282	5,367
Comparable store net sales change	1.9 %	4.4 %	5.9 %	5.5 %
Fiscal 2013:				
Net sales	$1,865.8	$1,854.9	$1,884.7	$2,234.9
Gross profit	$656.0	$648.7	$659.9	$825.2
Operating income	$216.6	$201.3	$204.3	$348.2
Net income	$133.5	$124.7	$125.4	$213.0
Diluted net income per share	$0.59	$0.56	$0.58	$1.02
Stores open at end of quarter	4,763	4,842	4,953	4,992
Comparable store net sales change	2.1 %	3.7 %	3.1 %	1.2 %

(1) Easter was observed on April 20, 2014 and March 31, 2013.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply our judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management has carried out, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act as of the end of the period covered by this report. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of January 31, 2015, the Company's disclosure controls and procedures were designed and functioning effectively to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). The Company's management conducted an assessment of the Company's internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework (2013). Based on this assessment, the Company's management has concluded that, as of January 31, 2015, the Company's internal control over financial reporting is effective. The Company's independent registered public accounting firm, KPMG LLP, has audited the Company's consolidated financial statements and has issued an attestation report on the effectiveness of the Company's internal control over financial reporting. Their report appears below.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting that occurred during our most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Dollar Tree, Inc.:

We have audited Dollar Tree Inc.'s (the Company) internal control over financial reporting as of January 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets

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of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of January 31, 2015, and February 1, 2014, and the related consolidated income statements, and statements of comprehensive income, shareholders’ equity, and cash flows for each of the years in the three-year period ended January 31, 2015, and our report dated March 13, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Norfolk, Virginia

March 13, 2015

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning our Directors and Executive Officers required by this Item is incorporated by reference in Dollar Tree, Inc.'s Proxy Statement relating to our Annual Meeting of Shareholders to be held on June 18, 2015 (Proxy Statement), under the caption "Information Concerning Nominees, Directors and Executive Officers.”

Information set forth in the Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance," with respect to director and executive officer compliance with Section 16(a), is incorporated herein by reference.

Information set forth in the Proxy Statement under the caption “Committees of the Board of Directors – Audit Committee” with respect to our audit committee financial expert required by this Item is incorporated herein by reference.

The information concerning our code of ethics required by this Item is incorporated by reference to the Proxy Statement, under the caption "Code of Ethics."

Item 11. EXECUTIVE COMPENSATION

Information set forth in the Proxy Statement under the caption "Compensation of Executive Officers," with respect to executive compensation, is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information concerning our securities authorized for issuance under equity compensation plans required by this Item is incorporated by reference to the Proxy Statement under the caption “Equity Compensation Plan Information.”

Information set forth in the Proxy Statement under the caption "Ownership of Common Stock," with respect to security ownership of certain beneficial owners and management, is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information set forth in the Proxy Statement under the caption "Certain Relationships and Related Transactions," is incorporated herein by reference.

The information concerning the independence of our directors required by this Item is incorporated by reference to the Proxy Statement under the caption “Corporate Governance and Director Independence - Independence.”

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information set forth in the Proxy Statement under the caption "Ratification of Appointment of KPMG LLP as Independent Registered Accounting Firm," is incorporated herein by reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

1. Documents filed as part of this report:

1. Financial Statements. Reference is made to the Index to the Consolidated Financial Statements set forth under Part II, Item 8, on Page 37 of this Form 10-K.

2. Financial Statement Schedules. All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, are not applicable, or the information is included in the Consolidated Financial Statements, and therefore have been omitted.

3. Exhibits. The following exhibits, are filed as part of, or incorporated by reference into, this report.

2. Plan of Reorganization

2.1 Agreement and Plan of Merger among Dollar Tree Stores, Inc., Dollar Tree, Inc. and Dollar Tree Merger Sub, Inc., dated February 27, 2008 (Exhibit 2.1 to the Company’s February 27, 2008 Current Report on Form 8-K, incorporated herein by this reference).

2.2.1 Agreement and Plan of Merger, dated as of July 27, 2014 among Family Dollar Stores, Inc., Dollar Tree, Inc. and Dime Merger Sub, Inc. (Exhibit 2.1 to the Company's July 27, 2014 Current Report on Form 8-K, incorporated herein by the reference).

2.2.2 Amendment No. 1, dated September 4, 2014, to the Agreement and Plan of Merger, dated as of July 27, 2014 among Family Dollar Stores, Inc., Dollar Tree Inc. and Dime Merger Sub, Inc. (Exhibit 2.1 to the Company's September 4, 2014 Current Report on Form 8-K, incorporated herein by this reference).

3. Articles and Bylaws

3.1 Articles of Incorporation of Dollar Tree, Inc. (as amended, effective June 20, 2013) (Exhibit 3.1 to the Company’s June 20, 2013 Current Report on Form 8-K, incorporated herein by this reference).

3.2 Bylaws of Dollar Tree, Inc., as amended (Exhibit 3.1 to the Company’s January 15, 2015 Current Report on Form 8-K, incorporated herein by this reference).

4. Instruments Defining the Rights of Security Holders

4.1 Form of Common Stock Certificate (Exhibit 4.1 to the Company’s March 13, 2008 Current Report on Form 8-K, incorporated herein by this reference).

4.2 Indenture, dated as of February 23, 2015, by and between Family Tree Escrow, LLC and U.S. Bank National Association, as trustee, relating to the 5.250% senior notes due 2020. (Exhibit 4.1 to the Company's February 23, 2015 Current Report on Form 8-K, incorporated herein by this reference).

4.3 Indenture, dated as of February 23, 2015, by and between Family Tree Escrow, LLC and U.S. Bank National Association, as trustee, relating to the 5.750% senior notes due 2023. (Exhibit 4.2 to the Company's February 23, 2015 Current Report on Form 8-K, incorporated herein by this reference).

4.4	Registration Rights Agreement, dated as of February 23, 2015, by and among Dollar Tree, Inc., Family Tree Escrow, LLC and J.P. Morgan Securities LLC, as representative of the initial purchasers, relating to the 5.250% senior notes due 2020. (Exhibit 4.3 to the Company's February 23, 2015 Current Report on Form 8-K, incorporated herein by this reference).
4.5	Registration Rights Agreement, dated as of February 23, 2015, by and among Dollar Tree, Inc., Family Tree Escrow, LLC and J.P. Morgan Securities LLC, as representative of the initial purchasers, relating to the 5.750% senior notes due 2023. (Exhibit 4.4 to the Company's February 23, 2015 Current Report on Form 8-K, incorporated herein by this reference).
10.	Material Contracts
10.1.1	Stock Incentive Plan (SIP) (Exhibit 10.15 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1995, incorporated herein by this reference).*
10.1.2	First Amendment to the SIP (Exhibit 10.3 to the Annual Report on Form 10-K for the fiscal year ended December 31, 1996, incorporated herein by this reference).*
10.1.3	Second Amendment to the SIP (Exhibit 10.5 to the Annual Report on Form 10-K for the fiscal year ended December 31, 1997, incorporated herein by this reference).*
10.1.4	Third Amendment to the SIP (Appendix to the Definitive Proxy Statement, filed April 19, 2000, incorporated herein by this reference).*
10.1.5	Fourth Amendment to the Company’s SIP (Exhibit 10.4 to the Company’s January 16, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.1.6	Fifth Amendment to the SIP (Exhibit 10.4 to the Company’s February 27, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.1.7	Sixth Amendment to the SIP (Exhibit 10.1 to the Company’s Annual Report on Form 10-K for the fiscal year ended February 2, 2008, incorporated herein by this reference).*
10.2	Non-Qualified Deferred Compensation Plan (Exhibit 10.5 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 1999, incorporated herein by this reference).*
10.3.1	2003 Non-Employee Director Stock Option Plan (Exhibit C to the Definitive Proxy Statement, filed April 30, 2003, incorporated herein by this reference).*
10.3.2	Second Amendment to the 2003 Non-Employee Director Stock Option Plan (Exhibit 10.7 to the Company’s February 27, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.3.3	Third Amendment to the Company’s 2003 Non-Employee Director Stock Option Plan (Exhibit 10.1 to the Company’s Annual Report on Form 10-K for the fiscal year ended February 2, 2008, incorporated herein by this reference).*
10.4.1	2003 Director Deferred Compensation Plan (Exhibit D to the Definitive Proxy Statement, filed April 30, 2003, incorporated herein by this reference).*
10.4.2	Second Amendment to the Company’s 2003 Director Deferred Compensation Plan (Exhibit 10.3 to the Company’s January 16, 2008 Current Report on Form 8-K, incorporated herein by this reference).*

10.4.3	Third Amendment to the 2003 Director Deferred Compensation Plan (Exhibit 10.6 to the Company's February 27, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.5.1	The Company's 2003 Equity Incentive Plan (as amended) (EIP) (Exhibit A to the Definitive Proxy Statement filed on April 29, 2004, incorporated herein by this reference).*
10.5.2	Second Amendment to the Company's EIP (Exhibit 10.2 to the Company's January 16, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.5.3	Third Amendment to the EIP (Exhibit 10.3 to the Company's February 27, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.6.1	The Company's 2004 Executive Officer Equity Plan (EOEP) (Exhibit B to the Definitive Proxy Statement filed on April 29, 2004, incorporated herein by this reference).*

* Management Contract or compensatory plan or arrangement

10.6.2	Second Amendment to the Company's EOEP (Exhibit 10.1 to the Company's January 16, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.6.3	Third Amendment to the Company's EOEP (Exhibit 10.2 to the Company's February 27, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.6.4	Fourth Amendment to the Company's EOEP (Exhibit 10.2 to the Company's June 19, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.7	Form of Standard Restricted Stock Unit Award Agreement for use under the Company's EIP and EOEP (Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 30, 2004, incorporated herein by this reference).*
10.8	Form of Standard Option Award Agreement for use under the Company's EIP and EOEP (Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 30, 2004, incorporated herein by this reference).*
10.9	Form of consulting agreement between the Company and certain members of the Board of Directors (Exhibit 10.1 to the Company's February 3, 2005 Current Report on Form 8-K, incorporated herein by this reference).*
10.10	Form of Standard Restricted Stock Unit Award Agreement for use under the Company's EIP and EOEP (Exhibit 10.1 to the Company's March 24, 2005 Current Report on Form 8-K incorporated herein by this reference).*
10.11.1	The Company's 2005 Employee Stock Purchase Plan (ESPP) (Appendix A to the Company's 2005 Definitive Proxy Statement on Schedule 14-A, initially filed with the Commission on May 9, 2005, which is incorporated herein by this reference).*
10.11.2	Amendment to the ESPP (Exhibit 10.1 to the Company's February 27, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.12	Change in Control Retention Agreements (Exhibit 10.1 to the Company's March 14, 2007 Report on Form 8-K, incorporated herein by this reference).*
10.13	Amended and Restated Severance Agreement between the Company and Robert H. Rudman dated March 29, 2007 (Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007, incorporated herein by this reference).*
10.14.1	Post-Retirement Benefit Agreement Between the Company and H. Ray Compton dated June 21, 2007 (Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 4, 2007, incorporated herein by this reference).*
10.14.2	Letter Modification to Post-Retirement Benefit Agreement Between the Company and H. Ray Compton dated October 10, 2013 (filed herewith).*
10.15	Amendments to the Company's Stock Plans (Exhibit 10.5 to the Company's January 16, 2008 Current Report on Form 8-K, incorporated herein by this reference).*

10.16	New policy for director compensation (as described in Item 1.01 of the Company's January 16, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.17	Form of Standard Restricted Stock Unit Award Agreement for use under the Company’s EIP and the Company’s EOEP (Exhibit 10.2 to the Company’s February 15, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.18	Form of Standard Stock Option Agreement for use under the Company’s 2003 EIP and the Company’s EOEP (Exhibit 10.2 to the Company’s February 15, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.19	$550.0 million unsecured Credit Agreement, dated February 20, 2008 (Exhibit 10.1 to the Company’s February 15, 2008 Current Report on Form 8-K, incorporated herein by this reference).
10.20	Assignment and Assumption Agreement (Exhibit 10.5 to the Company’s February 27, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.21	Store Lease with Suburban Management and Related Renewals (Exhibit 10.1 to the Company's May 3, 2008 Quarterly Report on form 10-Q, incorporated herein by this reference).
10.22	Store Lease with DMK Associates and Related Renewals (Exhibit 10.2 to the Company’s May 3, 2008 Quarterly Report on Form 10-Q, incorporated herein by this reference).

* Management Contract or compensatory plan or arrangement

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10.23	Store Lease with DMK Associates and Related Renewals (Exhibit 10.3 to the Company's May 3, 2008 Quarterly Report on Form 10-Q, incorporated herein by this reference).
10.24	Amendments to the Assumed Incentive Plans (Exhibit 10.1 to the Company’s June 19, 2008 Current Report on Form 8-K, incorporated herein by this reference).*
10.25.1	Change in Control Retention Agreement between the Company and Kevin Wampler, Chief Financial Officer (Exhibit 10.1 to the Company’s December 2, 2008 Report on Form 8-K, incorporated herein by this reference).*
10.25.2	Amendment to Change in Control Retention Agreement between the Company and Kevin Wampler, Chief Financial Officer (Exhibit 10.1 to the Company’s October 6, 2011 Current Report on Form 8-K, incorporated herein by this reference).*
10.26	Form of the Company’s Named Executive Officer Option Agreement (Exhibit 10.1 to the Company’s January 30, 2009 Current Report on Form 8-K, incorporated herein by this reference).*
10.27	Form of the Company’s Named Executive Officer Restricted Stock Unit Agreement (Exhibit 10.2 to the Company’s January 30, 2009 Current Report on Form 8-K, incorporated herein by this reference).*
10.28	Purchase Agreement dated October 10, 2010 (Exhibit 10.1 to the Company’s October 12, 2010 Current Report on Form 8-K, incorporated herein by this reference).
10.29	Description of Dollar Tree, Inc. Management Incentive Compensation Plan (Exhibit 10.1 to the Company’s April 30, 2011 Quarterly Report on Form 10-Q, incorporated herein by reference).*
10.30	2011 Omnibus Incentive Plan (Exhibit 10.1 to the Company’s June 16, 2011 Current Report on Form 8-K, incorporated herein by this reference).*
10.31	Form of Long-Term Performance Plan Award Agreement (Exhibit 10.2 to the Company June 16, 2011 Current Report on Form 8-K, incorporated herein by this reference).*
10.32	Form of Restricted Stock Unit Agreement (Exhibit 10.3 to the Company’s June 16, 2011 Current Report on Form 8-K, incorporated herein by this reference).*
10.33	Form of Non-employee Director Option Agreement (Exhibit 10.4 to the company June 16, 2011 Current Report on Form 8-K, incorporated herein by this reference).*
10.34	Accelerated Share Repurchase Program Collared Master Confirmation dated November 21, 2011 (Exhibit 10.38 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2012, incorporated herein by this reference).
10.35	Accelerated Share Repurchase Program Supplemental Confirmation dated November 21, 2011 (Exhibit 10.39 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2012, incorporated herein by this reference).
10.36	Form of Long-Term Performance Plan Award Agreement (Exhibit 10.1 to the Company's March 15, 2012 current Report on Form 8-K, incorporated herein by this reference).*
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	Form of Restricted Stock Unit Agreement (Exhibit 10.2 to the Company's March 15, 2012 Current Report on Form 8-K, incorporated herein by this reference).*
10.38.1	Dollar Tree Stores, Inc. $750.0 million Credit Agreement, dated June 6, 2012 with Wells Fargo Bank, N.A., as administrative agent (Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 11, 2012, incorporated herein by this reference).
10.38.2	Dollar Tree Stores, Inc. amendment to $750.0 million Credit Agreement, with Wells Fargo Bank, N.A., as administrative agent (Exhibit 10.6 to the Company's September 17, 2013 Current Report on Form 8-K, incorporated herein by this reference).
10.38.3	Second Amendment to Credit Agreement, dated as of August 15, 2014, among Dollar Tree Stores, Inc., as borrower, Dollar Tree, Inc., certain subsidiaries of Dollar Tree, Inc. party thereto, as guarantors, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto. (Exhibit 10.1 to the Company's August 15, 2014 Current Report on Form 8-K, incorporated herein by this reference).
10.39	Form of change in Control Retention Agreement between the Company and David Jacobs, Chief Strategy Officer (Exhibit 10.2 to the Company's July 28, 2012 Quarterly Report on Form 10-Q, incorporated herein by this reference).*
	* Management Contract or compensatory plan or arrangement

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10.40	Restricted Stock Unit Agreement dated June 13, 2012 between the Company and Bob Sasser, Chief Executive Officer (Exhibit 10.3 to the Company's July 28, 2012 Quarterly Report on Form 10-Q, incorporated herein by this reference).*
10.41	Form of Change in Control Retention Agreement between the Company and Mike R. Matacunas, Chief Administrative Officer (Exhibit 10.1 to the Company's August 3, 2013 Quarterly Report on Form 10-Q, incorporated herein by this reference).*
10.42	Form of Change in Control Retention Agreement between the Company and William A. Old, Jr, Chief Legal Officer and Corporate Secretary (Exhibit 10.2 to the Company's August 3, 2013 Quarterly Report on Form 10-Q, incorporated herein by this reference).*
10.43.1	Note Purchase Agreement, dated as of September 16, 2013, among Dollar Tree, Inc., Dollar Tree Stores, Inc. and the institutional accredited investors set forth therein, with J.P. Morgan Securities LLC and Wells Fargo Securities, LLC acting as Joint Placement Agents on behalf of the Company, in connection with the private placement notes. (Exhibit 10.5 to the Company's September 17, 2013 Current Report on Form 8-K, incorporated herein by this reference)
10.43.2	First Amendment, dated January 20, 2015, to Note Purchase Agreement and related Notes, dated as of September 16, 2013, by and among Dollar Tree, Inc., Dollar Tree Stores, Inc. and the noteholders party thereto. (Exhibit 10.1 to the Company's January 20, 2015 Current Report on Form 8-K, incorporated herein by this reference)
10.44	Issuer Collared Forward Repurchase Transaction Master Confirmation dated September 17, 2013 between J.P. Morgan Securities LLC, as agent for JPMorgan Chase Bank, National Association, London Branch, and Dollar Tree, Inc. (Exhibit 10.1 to the Company's September 17, 2013 Current Report on Form 8-K, incorporated herein by this reference)
10.45	Issuer Collared Forward Repurchase Transaction Supplemental Confirmation dated September 17, 2013 between J.P. Morgan Securities LLC, as agent for JPMorgan Chase Bank, National Association, London Branch, and Dollar Tree, Inc. (Exhibit 10.2 to the Company's September 17, 2013 Current Report on Form 8-K, incorporated herein by this reference)
10.46	Issuer Uncollared Forward Repurchase Transaction Master confirmation dated September 17, 2013 between J.P. Morgan Securities LLC, as agent for JPMorgan chase Bank, National Association, London Branch, and Dollar Tree, Inc. (Exhibit 10.3 to the Company's September 17, 2013 Current Report on Form 8-K, incorporated herein by this reference)
10.47	Issuer Uncollared Forward Repurchase Transaction Supplemental Confirmation dated September 17, 2013 between J.P. Morgan Securities LLC, as agent for JPMorgan Chase Bank, National Association, London Branch, and Dollar Tree, Inc. (Exhibit 10.4 to the Company's September 17, 2013 Current Report on Form 8-K, incorporated herein by this reference)
10.48	Post-Retirement Benefit Agreement Between the Company and J. Douglas Perry dated November 4, 2013 (filed as Exhibit 10.51 to the Company's January 1, 2014 Annual Report of Form 10-K, incorporated herein by this reference)*
10.49	Credit Agreement, dated as of March 9, 2015, among Family Tree Escrow, LLC, to be merged with and into Dollar Tree, Inc., the Lenders and Issuing Banks from time to time party thereto and JPMorgan Chase Bank,

N.A., as Administrative Agent, Collateral Agent and Swingline Lender. (Exhibit 10.1 to the Company's March 9, 2015 Current Report on Form 8-K, incorporated herein by this reference)

* Management contract or compensatory plan or arrangement

21. Subsidiaries of the Registrant
21.1 Subsidiaries (filed herewith)
23. Consents of Experts and Counsel
23.1 Consent of Independent Registered Public Accounting Firm (filed herewith)
31. Certifications required under Section 302 of the Sarbanes-Oxley Act

31.1	Certification required under Section 302 of the Sarbanes-Oxley Act of Chief Executive Officer
31.2	Certification required under Section 302 of the Sarbanes-Oxley Act of Chief Financial Officer

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32.	Statements under Section 906 of the Sarbanes-Oxley Act
32.1	Statement under Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer
32.2	Statement under Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer
101.0	Interactive Data Files
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

DOLLAR TREE, INC.

DATE: March 13, 2015

By: /s/ Bob Sasser
Bob Sasser
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Macon F. Brock, Jr. Macon F. Brock, Jr.	Chairman; Director	March 13, 2015
/s/ Bob Sasser Bob Sasser	Director, Chief Executive Officer (principal executive officer)	March 13, 2015
/s/ Thomas A. Saunders, III Thomas A. Saunders, III	Lead Independent Director	March 13, 2015
/s/ J. Douglas Perry J. Douglas Perry	Chairman Emeritus; Director	March 13, 2015
/s/ Arnold S. Barron Arnold S. Barron	Director	March 13, 2015
/s/ Mary Anne Citrino Mary Anne Citrino	Director	March 13, 2015
/s/ H. Ray Compton H. Ray Compton	Director	March 13, 2015
/s/ Conrad M. Hall Conrad M. Hall	Director	March 13, 2015
/s/ Lemuel E. Lewis Lemuel E. Lewis	Director	March 13, 2015
/s/ Kevin S. Wampler Kevin S. Wampler	Chief Financial Officer (principal financial and accounting officer)	March 13, 2015
/s/ Thomas E. Whiddon Thomas E. Whiddon	Director	March 13, 2015
/s/ Dr. Carl P. Zeithaml Dr. Carl P. Zeithaml	Director	March 13, 2015

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