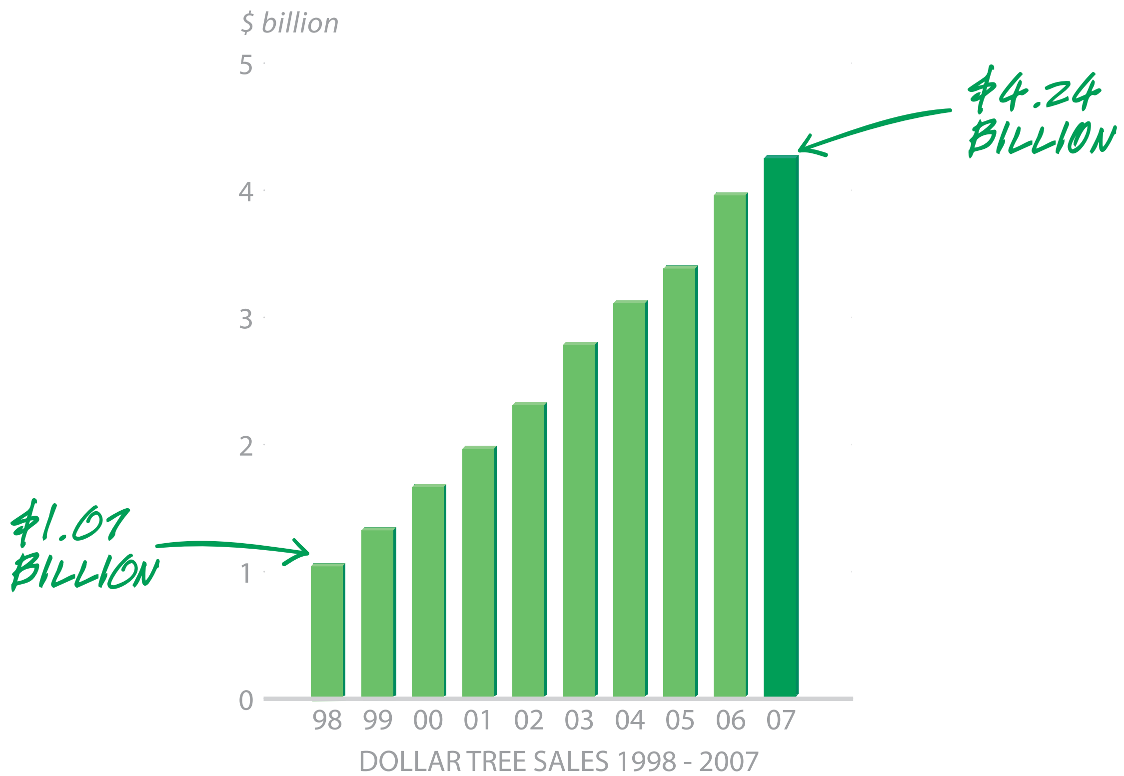
2007 ANNUAL REPORT



$4.24 BILLION...
AND GROWING

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ABOUT THE COMPANY

Headquartered in Chesapeake, Virginia, Dollar Tree is the World's leading $1 price point variety store. For more than twenty years, we have remained dedicated to a single vision — offering incredible value and a fun, friendly shopping experience. Today, there are more than 3,400 locations throughout the contiguous United States, supported by a nationwide, state-of-the-art logistics network. The Company also offers products at $1 and above at its 137 Deal$ stores.

FINANCIAL HIGHLIGHTS

	2007	2006[a]	2005	2004	2003
(in millions, except store and per share data)					
Net Sales	**$ 4,242.6**	$ 3,969.4	$ 3,393.9	$ 3,126.0	$ 2,799.9
Gross Profit	**1,461.1**	1,357.2	1,172.4	1,112.5	1,018.4
Operating Income	**330.3**	310.8	283.9	293.5	293.6
Net Income	**201.3**	192.0	173.9	180.3	177.6
Diluted Net Income Per Share	**2.09**	1.85	1.60	1.58	1.54
Working Capital	**$ 382.9**	$ 575.7	$ 648.2	$ 675.5	$ 450.3
Total Assets	**1,787.7**	1,882.2	1,798.4	1,792.7	1,501.5
Total Debt	**269.4**	269.5	269.9	281.7	185.1
Shareholders' Equity	**988.4**	1,167.7	1,172.3	1,164.2	1,014.5
Number of Stores Open	**3,411**	3,219	2,914	2,735	2,513
Total Selling Square Footage	**28.4**	26.3	23.0	20.4	16.9
Comparable Store Net Sales Increase/(Decrease)[b]	**2.7%**	4.6%	(0.8%)	0.5%	2.9%
Average Net Sales Per Store[b]	**$ 1.3**	$ 1.3	$ 1.2	$ 1.2	$ 1.2

(a) Fiscal 2006 includes 53 weeks, commensurate with the retail calendar, while all other fiscal years reported in the table contain 52 weeks.

(b) Comparable store net sales compare net sales for stores open throughout each of the two periods being compared. Net sales per store are calculated for stores open throughout the entire period presented.

Bob Sasser
President and
Chief Executive Officer

TO OUR SHAREHOLDERS

Dollar Tree continued to grow and improve in 2007. Our total sales were a record $4.24 billion. Comparable store sales increased by 2.7%, and earnings per share were $2.09, another record. We improved our gross margin, increased inventory turns and our operating margin remains among the highest of retailers in the value sector. We invested in our future by increasing our total store square footage, adding frozen and refrigerated capability to more stores and expanding our Distribution Center in Briar Creek, PA. We generated significant cash flow, and returned value to our long-term shareholders by investing more than $473 million on share repurchases without increasing our long-term debt.

REVIEW OF 2007 GOALS AND ACCOMPLISHMENTS

As always, we entered 2007 with a specific list of goals for the year. Our primary goal for 2007 was to ***grow our top line and continue to produce sector-leading profitability***. We do this by managing every aspect of our business to deliver great merchandise and a fun, friendly, convenient shopping environment for our customers. This is the key to the Dollar Tree extreme-value proposition. Each Dollar Tree store offers a wide assortment of variety merchandise at incredible values. Our merchandise strategy provides an ever changing mix of exciting seasonal merchandise, branded product — including well-known national brands, popular regional brands and exclusive Dollar Tree brands — and high value closeouts. Our goal is to create merchandise excitement for our customers, every time they visit our store.

In recent years we have increased our selection of basic products; items that people need everyday and are more frequently purchased. Because of the value we offer, we have become more of a destination for categories such as basic cleaning supplies, health and beauty care products and paper goods. Our expanded product selection has been embraced by our customers who are making more frequent shopping trips to our stores. While there, customers continue to be surprised by the extreme-value seasonal product and variety merchandise, which continue to account for the majority of our sales. This is a factor that differentiates Dollar Tree, setting us apart from our competitors in the extreme-value sector. In addition, improved replenishment methods are providing a better in-stock position on these products and we believe this has been a real driver of increases in both customer traffic and our average ticket.

As we have increased our offering of basic everyday products, we continue to expand frozen and refrigerated product to more stores. In 2007, we added freezers and coolers to a total of 340 stores. At the end of the year, we had freezers and coolers in 972 Dollar Tree stores compared to 632 stores the same time last year.

The expansion of our payment type acceptance continues to contribute positively to our results. We currently accept Food Stamps in about 1,000 qualified stores, and the penetration of Debit Card usage continued to grow throughout the year. We rolled Visa credit card acceptance to all of our stores nationwide on October 31, just in time for the Holiday season. We began to see a lift from Visa credit almost immediately in the fourth quarter, particularly

in terms of transaction size. We expect penetration of Visa credit to continue increasing throughout 2008.

In terms of profitability, we achieved 7.8% operating margin in 2007, which remains among the highest in the extreme-value retail sector. Gross margin improved 20 basis points over 2006, driven by higher merchandise margins.

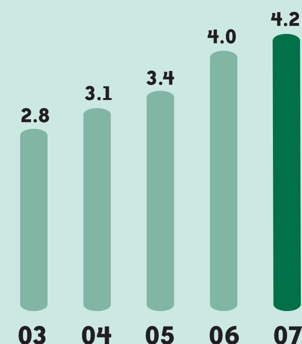
Our second objective was to ***continue growing our store base, and refining our real estate processes***. Our goals are to open stores earlier in the year, to maximize their productivity through improved site selection, improve the construction process and ultimately to increase our return on invested capital. In fiscal 2007 we opened 240 New Stores, expanded and relocated 102 existing stores, and increased retail square footage by 8%. Our new stores averaged just under 11,000 square feet, a size that is within our targeted range, and ideal from the customers' perspective, allowing them to see a full display of merchandise in an open and bright shopping environment, while keeping their shopping trip quick and convenient. We ended fiscal 2007 with 3,411 stores and room to grow. We believe that we can operate 5,000 to 7,000 Dollar Tree stores across the country and our Deal$ "multi-price point" concept has the potential to expand that number.

Third, ***leverage our infrastructure investment***. Significant investments in infrastructure over the past few years are contributing to improved performance. Our logistics network is highly automated, efficient and capable of delivering product to all 48 contiguous States and we have capacity to support growth to $6.7 billion of annual sales without additional investment. Our technology infrastructure and particularly our investment in Point of Sale applications has given us the ability to improve our flow of product to stores, reduce back room inventory and improve operating efficiency. Our Automated Store Replenishment tool is improving our in-stock of basics. Demand driven allocations of new product consistent with sales trends is driving store sales and our sell-through of seasonal product is increasing. These investments are enabling us to improve the efficiency and increase the capacity of our logistics network, lower our per-store inventory investment and increase inventory turns. Inventory per store has declined by more than 16% in the past three years, and finished 2007 essentially unchanged from last year. In addition, inventory turns increased 25 basis points in 2007, on top of a 45 basis point increase the previous year, and our in-stock position on basics continues to improve.

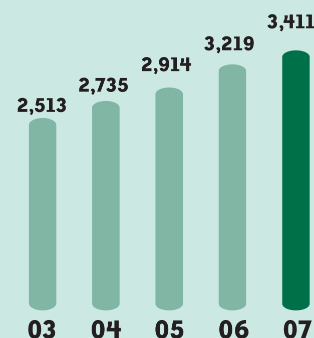
Fourth, ***refine the multi-price model at Deal$***. We acquired the Deal$ chain in 2006, as a platform to develop a multi-price format, lifting the

NET SALES

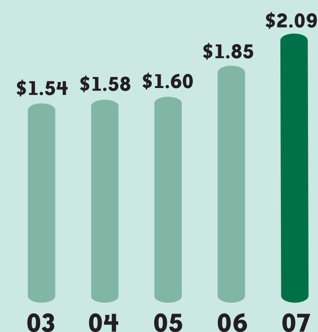
($ In Billions)



NUMBER OF STORES OPEN



EARNINGS PER SHARE



restriction of the $1 price point to offer even more value and convenience to our customers while leveraging the strengths and infrastructure of Dollar Tree. We began converting the stores to multi-price in the fall of 2006. In 2007 we honed the multi-price model and focused the merchandise assortment. We are excited about the availability of new merchandise opportunities at the higher prices and the lift that it gives us in average ticket. The key elements of a Deal$ store are surprising value, convenience and a fun and friendly shopping experience.

Our best test of the concept is in the opening of new Deal$ stores in new markets. In 2007 we opened 23 new stores and relocated 4 existing Deal$ stores, bringing our total to 137 multi-price Deal$ stores at year-end. We have expanded the concept into new regions, including opening our first Deal$ stores in the Northeast, with very good early results. We are very excited about the Deal$ concept and we recognize the growth opportunity it represents. We believe Deal$ fills a unique niche in the value retail segment. It offers an opportunity to serve even more customers in more markets.

CORPORATE GOVERNANCE AND SHAREHOLDER VALUE

Dollar Tree is committed to responsible corporate governance. We constantly analyze best practices and respond with changes accordingly. In 2007, we adopted a majority vote governance policy with respect to the election of directors who run unopposed, created an independent committee with responsibility for Corporate Governance, established the position of Lead Independent Director on our Board, and added two new independent directors.

Most importantly we remain focused on upholding our core values of honesty, integrity and transparency. We are uncompromising in these values and they will always be reflected in our strength of financial controls, and our open and straight forward relationships with our customers, our suppliers, our associates and our shareholders. For 2007, we once again earned a "clean bill of health" with no material weakness noted in our assessment of controls supporting the accounting and reporting processes, in compliance with the requirements of Sarbanes-Oxley legislation. You can be assured that, in 2008, we will continue to operate our Company with a strong commitment to financial integrity and the related internal controls while driving to a cost efficient infrastructure that delivers shareholder value.

In addition to solid growth in revenue and earnings, in 2007 we returned more than $473 million to our shareholders in the form of share repurchase. We believe this to be a good use of cash and we will continue to examine strategies to build total shareholder returns.

We also recently enhanced our long-term debt structure, replacing our previous $450 million Revolving Credit Facility with a $300 million Revolving Credit Facility and a $250 million term loan. The new structure provides greater flexibility and a more favorable LIBOR spread than our previous structure. Our long-term debt at the end of 2007 was unchanged from the previous year.

2008 GOALS AND OBJECTIVES

For 2008, we intend to build on the progress made last year by focusing our efforts on five key priorities. First and foremost, to ***drive profitability by growing our top line***, providing surprising merchandise value and merchandise excitement to our customers, maximizing our gross margins and maintaining tight control of expenses. We will continue to expand our frozen and refrigerated product, adding freezers and coolers to 150 stores in 2008.

Second, we will continue to ***optimize our real estate network***, opening stores on schedule, improving the site selection process and increasing new store productivity. We will have bigger, more impactful Grand Openings, and will strive to continue lowering our construction costs.

Third, we will further ***develop, improve and expand Deal$***, opening 30 new Deal$ stores, expanding the size and skill base of our Deal$ team, and developing a more compelling assortment of high value merchandise for the Deal$ customer.

Fourth, we will emphasize the continued ***development of our people***. We are driving successful talent management throughout our organization, to improve succession planning, training and development and further reduce field management turnover. We are building on our positive culture at Dollar Tree, to ensure that Dollar Tree is an exciting, motivating, enthusiastic and fun place to work, with expanding opportunities for career growth and personal development.

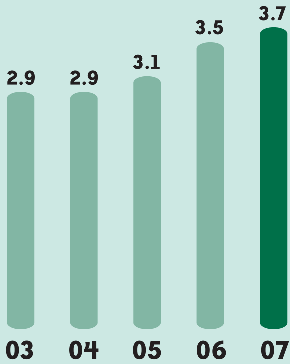
And finally, we are dedicated to ***building value for our long-term shareholders***. This means running the business as effectively as possible, and managing our capital in a way that enhances shareholder return.

SUMMARY

The economic landscape in 2008 is uncertain and challenging for many Americans. Rising prices for fuel and other basic commodities together with declining home values and tighter credit are putting pressure on family budgets at all income levels. In this environment, I believe Dollar Tree is more relevant than ever. We can be part of the solution for millions of consumers across America who are looking for ways to stretch their dollars — by delivering great value on products that people need and want everyday, by being in-stock in basics and by providing a bright, friendly, fun, convenient shopping experience. Dollar Tree has the tools necessary to continue to succeed in this environment. We are financially strong, we have a unique, successful retail concept, we have a solid, scalable infrastructure, and we continue to deliver sector-leading profitability. I believe that Dollar Tree is right for the times and, now more than ever, I believe the best is yet to come!

Bob Sasser
President and Chief Executive Officer

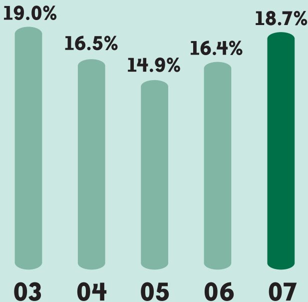
INVENTORY TURNS



MERCHANDISE MIX

Variety/Seasonal 54%
Consumer Basics 46%

RETURN ON SHAREHOLDERS' EQUITY



3,411 STORES...

Convenient Locations

Shopping at Dollar Tree is fun and easy! With more than 3,400 stores across the nation, Dollar Tree is conveniently located to serve our customers throughout middle America. Our stores are clean and bright, with ample parking close to the storefront.

We are the only "dollar" retailer with a national presence, with stores in all 48 contiguous States, and we have plenty of runway ahead of us. We believe we can increase the size of the chain to well over 5,000 stores.

Our new stores average 10,000 to 12,000 square feet — ideal from the customers' perspective, as it allows customers to see a full display of merchandise in an open and bright shopping environment, while keeping the shopping trip quick, convenient and efficient.

AND GROWING

Consistent, Measured Growth...

In 1986, we opened the first Dollar Tree store in Dalton, Georgia and have been growing ever since.

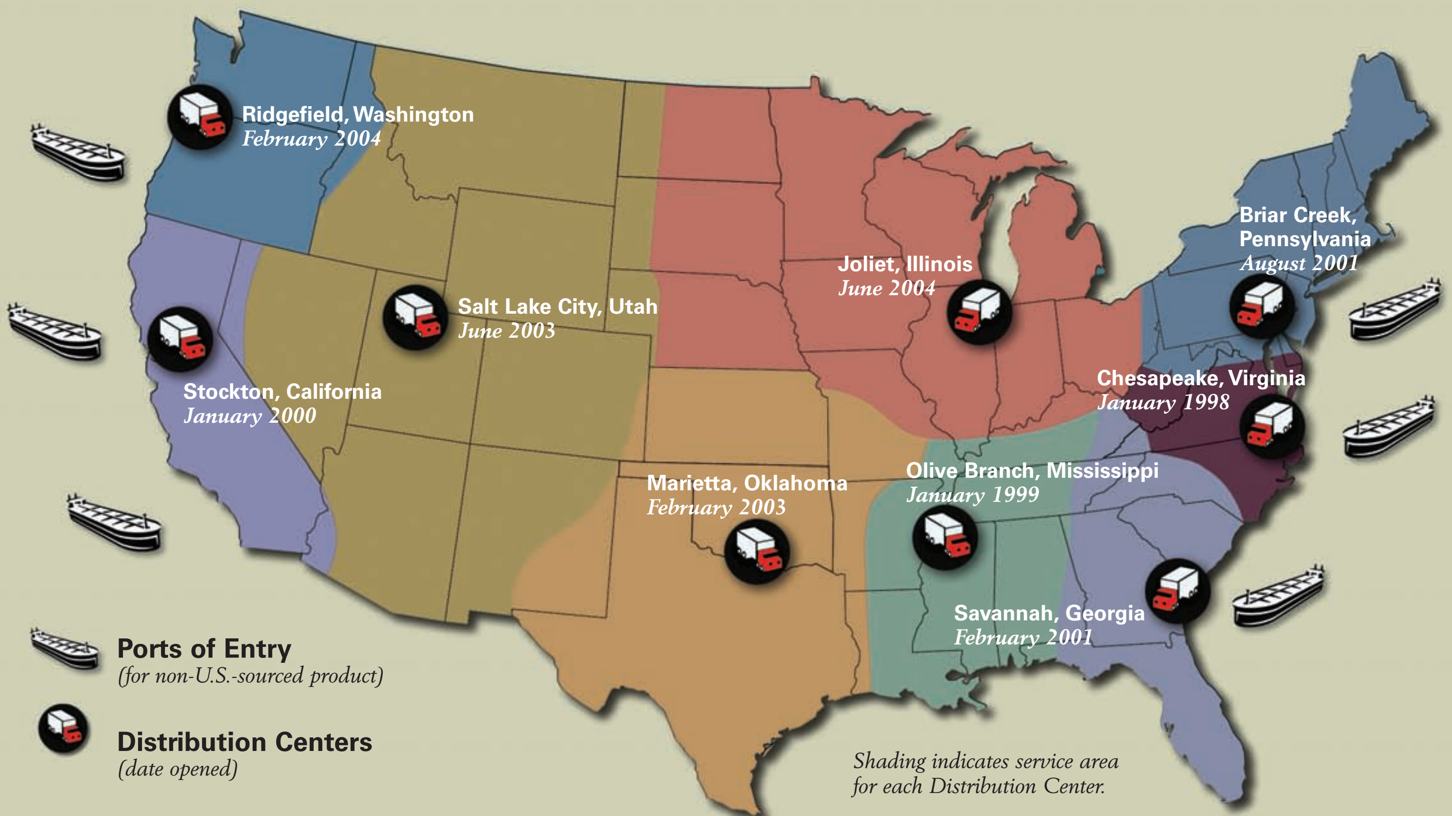
- We celebrated our 1,000th store in 1998.
- In 2004, there was a Dollar Tree store in each of the contiguous 48 United States.
- We ended Fiscal 2007 with 3,411 stores and room to grow.
- 275 new stores with 100 relocated or expanded stores are planned for 2008.
- We added freezers and coolers to 340 stores in 2007, and now have freezers and coolers in 972 of our stores at year-end. We plan to add them to approximately 150 more stores in 2008.

DOLLAR TREE LOGISTICS NETWORK

Dollar Tree operates a nationwide logistics network of nine, state-of-the-art Distribution Centers. In 2007, we expanded our Briar Creek Distribution Center, increasing the square footage of our logistics network to 5.7 million.

By leveraging prior investments in infrastructure, we continue to increase efficiency as our store base grows. Our inventory management and supply chain systems are enabling us to streamline our supply chain, improve merchandise flow and reduce per-store inventory levels, resulting in more efficient distribution and store operations.

Dollar Tree shipped 151 million cartons to our stores in 2007. With an estimated network capacity of $6.7 billion, Dollar Tree has a solid and scalable infrastructure with ample capacity to support future growth.



CARTONS SHIPPED... *AND GROWING*

550 MILLION

Dollar Tree customers number in the hundreds of millions annually. Each transaction involves one customer, a dollar, and a smile from a Dollar Tree associate!

Today's consumer loves our assortment of variety merchandise, basic consumer staple products, and expanded selection of frozen and refrigerated products.

The things you want and need are combined in a fast and friendly shopping experience. In addition, we fit today's busy lifestyle with Debit Card, Visa credit card and Discover card acceptance chainwide!

Expanding our tender types has helped increase store traffic and average transaction size.

In addition, point-of-sale data allows us to track sales by merchandise category at the store level — assisting our inventory planning. This has helped us to lower our per-store inventory levels and increase inventory turns.

CUSTOMER TRANSACTIONS... *AND GROWING*

42,000 ASSOCIATES...
AND GROWING

The 42,000 Dollar Tree associates nationwide deliver value to our customers every day. Their coordinated efforts are the human element behind each of the $4.24 billion in sales, 3,411 stores, 151 million cartons shipped and 550 million transactions in 2007. None of our goals could be achieved without the combined dedication, talent and hard work of Dollar Tree associates.

People work at Dollar Tree — not employees. Every person and every job is important and treated with respect. We know that the growth of our company depends on the growth of our people, and we are committed to a culture that fosters growth and development of individuals and the team as a whole. Our culture is success oriented and we are committed to finding, developing, and retaining great people.

Corporate Culture and Values. We believe that honesty and integrity, doing the right thing for the right reason, and treating people fairly and with respect are core values within our corporate culture. We believe that running a business, and certainly a public company, carries with it a responsibility to be above reproach when making operational and financial decisions. Our management team visits and shops our stores like every customer; we have an open door policy for all our associates, where ideas and individual creativity are encouraged. Dollar Tree store associates use their ability and imagination to create exciting merchandise presentations for our customers in their stores. Our Distribution Centers are operated based on objective measures of performance, and virtually everyone in our Store Support Center is available to assist associates in the stores and Distribution Centers.

"Shaking the Tree". Dollar Tree associates are encouraged to create, stretch, and grow. In an effort to improve processes and further control costs, our people are participating in a process of "Shaking the Tree", looking for new and innovative ways to improve performance for the benefit of our customers. To date, associates from across the organization have participated in this initiative, generating hundreds of practical ideas yielding cost savings and process improvements. This is just one example of Dollar Tree associates using their creativity and insights to deliver superior levels of operational excellence.

From our buying and assortment planning teams, to our systems, logistics, supply-chain and Distribution Centers, to our stores — Dollar Tree's 42,000 associates work together every day to ensure that our customers enjoy a fun and friendly shopping experience every time they visit our store.

A WARNING ABOUT FORWARD-LOOKING STATEMENTS: This Annual Report contains "forward-looking statements" as that term is used in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address future events, developments and results. They include statements preceded by, followed by or including words such as "believe," "anticipate," "expect," "intend," "plan," "view," "target" or "estimate." For example, our forward-looking statements include statements regarding:

- our anticipated sales, including comparable store net sales, net sales growth and earnings growth;
- our growth plans, including our plans to add, expand or relocate stores, our anticipated square footage increase, and our ability to renew leases at existing store locations;
- the average size of our stores to be added in 2008 and beyond;
- the effect of a slight shift in merchandise mix to consumables and the increase in freezers and coolers on gross profit margin and sales;
- the effect that expanding tender types accepted by our stores will have on sales;
- the net sales per square foot, net sales and operating income attributable to smaller and larger stores and store-level cash payback metrics;
- the possible effect of inflation and other economic changes on our costs and profitability, including the possible effect of future changes in minimum wage rates, shipping rates, domestic and foreign freight costs, fuel costs and wage and benefit costs;
- our cash needs, including our ability to fund our future capital expenditures and working capital requirements;
- our gross profit margin, earnings, inventory levels and ability to leverage selling, general and administrative and other fixed costs;
- our seasonal sales patterns including those relating to the length of the holiday selling seasons and the effect of an earlier Easter in 2008;
- the capabilities of our inventory supply chain technology and other new systems;
- the future reliability of, and cost associated with, our sources of supply, particularly imported goods such as those sourced from China;
- the capacity, performance and cost of our distribution centers, including opening and expansion schedules;
- our expectations regarding competition and growth in our retail sector;
- costs of pending and possible future legal claims; and
- management's estimates associated with our critical accounting policies, including inventory valuation, accrued expenses, and income taxes.

You should assume that the information appearing in this annual report is accurate only as of the date it was issued. Our business, financial condition, results of operations and prospects may have changed since that date.

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the risk factors summarized below and the more detailed discussion in the "Risk Factors" and "Business" sections in our Annual Report on Form 10-K filed on April 1, 2008. Also see our "Management's Discussion and Analysis of Financial Condition and Results of Operations" which begins on the next page.

- Our profitability is especially vulnerable to cost increases.
- We could encounter disruptions or additional costs in receiving and distributing merchandise.
- A downturn in economic conditions could adversely affect our sales.
- Sales below our expectations during peak seasons may cause our operating results to suffer materially.
- Our sales and profits rely on imported merchandise, which may increase in cost or become unavailable.
- We may be unable to expand our square footage as profitably as planned.
- Our profitability is affected by the mix of products we sell.
- Pressure from competitors may reduce our sales and profits.
- The resolution of certain legal matters could have a material adverse effect on our results of operations, accrued liabilities and cash.
- Certain provision in our articles of incorporation and bylaws could delay or discourage a takeover attempt that may be in the shareholder's best interest.

Our forward-looking statements could be wrong in light of these and other risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. We have no obligation to publicly update or revise our forward-looking statements after the date of this annual report and you should not expect us to do so.

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, we do not, by policy, selectively disclose to them any material, nonpublic information or other confidential commercial information. Accordingly, shareholders should not assume that we agree with any statement or report issued by any securities analyst regardless of the content of the statement or report. We generally do not issue financial forecasts or projections and we do not, by policy, confirm those issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

INTRODUCTORY NOTE: Unless otherwise stated, references to "we," "our" and "Dollar Tree" generally refer to Dollar Tree, Inc. and its direct and indirect subsidiaries on a consolidated basis. Unless specifically indicated otherwise, any references to "2008" or "fiscal 2008", "2007" or "fiscal 2007", "2006" or "fiscal 2006," and "2005" or "fiscal 2005," relate to as of or for the years ended January 31, 2009, February 2, 2008, February 3, 2007 and January 28, 2006, respectively.

On March 2, 2008, we reorganized by creating a new holding company structure. The new parent company is Dollar Tree, Inc., replacing Dollar Tree Stores, Inc., which is now an operating subsidiary. The primary purpose of the reorganization was to create a more efficient corporate structure. Outstanding shares of the capital stock of Dollar Tree Stores, Inc., were automatically converted, on a share for share basis, into identical shares of common stock of the new holding company. The articles of incorporation, the bylaws, the executive officers and the board of directors of our new holding company are the same as those of the former Dollar Tree Stores, Inc. in effect immediately prior to the reorganization. The common stock of our new holding company will continue to be listed on the NASDAQ Global Select Market under the symbol "DLTR". The rights, privileges and interests of our stockholders will remain the same with respect to our new holding company.

Available Information

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In Management's Discussion and Analysis, we explain the general financial condition and the results of operations for our company, including:

- what factors affect our business;
- what our net sales, earnings, gross margins and costs were in 2007, 2006 and 2005;
- why those net sales, earnings, gross margins and costs were different from the year before;
- how all of this affects our overall financial condition;
- what our expenditures for capital projects were in 2007 and what we expect them to be in 2008; and
- where funds will come from to pay for future expenditures.

As you read Management's Discussion and Analysis, please refer to our consolidated financial statements, included in this Annual Report, which present the results of operations for the fiscal years ended February 2, 2008, February 3, 2007 and January 28, 2006. In Management's Discussion and Analysis, we analyze and explain the annual changes in some specific line items in the consolidated financial statements for the fiscal year 2007 compared to the comparable fiscal year 2006 and the fiscal year 2006 compared to the comparable fiscal year 2005.

Key Events and Recent Developments

Several key events have had or are expected to have a significant effect on our operations. You should keep in mind that:

- On March 2, 2008, we reorganized by creating a new holding company structure. The new parent company is Dollar Tree, Inc., replacing Dollar Tree Stores, Inc., which is now an operating subsidiary.

Outstanding shares of the capital stock of Dollar Tree Stores, Inc., were automatically converted, on a share for share basis, into identical shares of common stock of the new holding company. The articles of incorporation, the bylaws, the executive officers and the board of directors of our new holding company are the same as those of the former Dollar Tree Stores, Inc. in effect immediately prior to the reorganization. The common stock of our new holding company will continue to be listed on the NASDAQ Global Select Market under the symbol "DLTR". The rights, privileges and interests of our stockholders will remain the same with respect to our new holding company.

- On February 20, 2008, we entered into a five-year $550.0 million Credit Agreement (the Agreement). The Agreement provides for a $300.0 million revolving line of credit, including up to $150.0 million in available letters of credit, and a $250.0 million term loan. The interest rate on the facility will be based, at our option, on a LIBOR rate, plus a margin, or an alternate base rate, plus a margin. Our March 2004, $450.0 million unsecured revolving credit facility was terminated concurrent with entering into the Agreement.
- In November 2007, we completed the 400,000 square foot expansion of our Briar Creek distribution center. Including this expansion, we believe that our nine distribution centers will support approximately $6.7 billion in sales annually.
- In October 2007, our Board of Directors authorized the repurchase of an additional $500.0 million of our common stock. This authorization was in addition to the November 2006 authorization which had approximately $98.4 million remaining. At February 2, 2008, we had approximately $453.7 million remaining under Board authorization.
- In March 2006, we completed our acquisition of 138 Deal$ stores and related assets. We paid approximately $32.0 million for store related assets and $22.1 million for inventory.
- On December 15, 2005, the Compensation Committee of our Board of Directors approved the acceleration of the vesting date of all previously issued, outstanding and unvested options under all current stock option plans, effective as of December 15, 2005. This decision eliminated non-cash compensation expense that would have been recorded in future periods following our adoption of Statement of Financial Accounting Standards No. 123, *Share-Based Payment (revised 2004)* (FAS 123R), on January 29, 2006. Compensation expense has been reduced by approximately $14.9 million over a period of four years during which the options would have vested, as a result of the option acceleration program.

Overview

Our net sales are derived from the sale of merchandise. Two major factors tend to affect our net sales trends. First is our success at opening new stores or adding new stores through acquisitions. Second, sales vary at our existing stores from one year to the next. We refer to this change as a change in comparable store net sales, because we compare only those stores that are open throughout both of the periods being compared. We include sales from stores expanded during the year in the calculation of comparable store net sales, which has the effect of increasing our comparable store net sales. The term 'expanded' also includes stores that are relocated.

At February 2, 2008, we operated 3,411 stores in 48 states, with 28.4 million selling square feet compared to 3,219 stores with 26.3 million selling square feet at February 3, 2007. During fiscal 2007, we opened 240 stores, expanded 102 stores and closed 48 stores, compared to 211 new stores opened, 85 stores expanded and 44 stores closed during fiscal 2006. In addition to the new stores opened in 2006, we acquired 138 Deal$ stores on March 25, 2006. In the current year we achieved 8% selling square footage growth. Of the 2.1 million selling square foot increase in 2007, 0.4 million was added by expanding existing stores. The average size of our stores opened in 2007 was approximately 8,500 selling square feet (or about 10,800 gross square feet). The average new store size decreased slightly in 2007 from approximately 9,000 selling square feet (or about 11,000 gross square feet) for new stores in 2006. For 2008, we continue to plan to open stores that are approximately 8,500 - 9,000 selling square feet (or about 10,000 - 12,500 gross square feet). We believe that this store size is our optimal size operationally and that this size also gives our customers an improved shopping environment that invites them to shop longer and buy more. We expect the substantial majority of our future net sales growth to come from the square footage growth resulting from new store openings and expansion of existing stores.

Fiscal 2006 ended on February 3, 2007 and included 53 weeks, commensurate with the retail calendar. The 53rd week in 2006 added approximately $70 million in sales. Fiscal 2007 and 2005 ended on February 2, 2008 and January 28, 2006, respectively, and both years included 52 weeks.

In fiscal 2007, comparable store net sales increased by 2.7%. This increase was based on the comparable 52 weeks for both years. We believe comparable store net sales were positively affected by a number of our initiatives over the past year, including expansion of forms of payment accepted by our stores and the roll-out of freezers and coolers to more of our stores. During 2006, we completed the roll-out of pin-capture debit card acceptance to all of our stores, which has enabled us to accept Electronic Benefit Transfer cards and we now accept food stamps in approximately 1,100 qualified stores. We believe the expansion of forms of payment accepted by our stores has helped increase the average transaction size in our stores. On October 31, 2007, all of our stores began accepting VISA credit as well, which we expect to have a positive impact on future sales.

We continued to experience a slight shift in the mix of merchandise sold to more consumables which we believe increases the traffic in our stores; however, this merchandise has lower margins. The negative impact from the planned shift toward more consumables was smaller in 2007 than in 2006. The planned shift in mix to more consumables is partially the result of the roll-out of frozen and refrigerated merchandise to more stores in 2007 and 2006. At February 2, 2008 we had frozen and refrigerated merchandise in approximately 1,100 stores compared to approximately 700 stores at February 3, 2007. We believe that this will continue to enable us to increase sales and earnings by increasing the number of shopping trips made by our customers and increasing the average transaction size.

Our point-of-sale technology provides us with valuable sales and inventory information to assist our buyers and improve our merchandise allocation to our stores. We believe that this has enabled us to better manage our inventory flow resulting in more efficient distribution and store operations and increased inventory turnover for each of the last two years. Inventory turnover improved by approximately 25 basis points in 2007 compared to 2006 and by approximately 45 basis points in 2006 compared to 2005. Inventory per store has also remained constant at February 2, 2008 compared to February 3, 2007 despite slightly lower than expected fourth-quarter 2007 sales and the increased merchandise flow due to the earlier Easter season in 2008.

We must continue to control our merchandise costs, inventory levels and our general and administrative expenses. Increases in these line items could negatively impact our operating results.

Our plans for fiscal 2008 anticipate net sales in the $4.49 billion to $4.62 billion range and diluted earnings per share of $2.17 to $2.35. This guidance for 2008 is predicated on selling square footage growth of approximately 9%. The earnings per share guidance for 2008 is exclusive of any share repurchase activity in 2008.

On March 25, 2006, we completed our acquisition of 138 Deal$ stores. These stores are located primarily in the Midwest part of the United States and we have existing logistics capacity to service these stores. This acquisition also included a few "combo" stores that offer an expanded assortment of merchandise including items that sell for more than $1. Substantially all Deal$ stores acquired continue to operate under the Deal$ banner while providing us an opportunity to leverage our Dollar Tree infrastructure in the testing of new merchandise concepts, including higher price points, without disrupting the single-price point model in our Dollar Tree stores. At February 2, 2008, 137 of these stores were selling items priced over $1.00, compared to 121 stores at February 3, 2007.

We paid approximately $32.0 million for store-related and other assets and $22.1 million for inventory. The results of Deal$ store operations are included in our financial statements since the acquisition date and did not have a significant impact on our operating results in fiscal 2007 or fiscal 2006.

Results of Operations

The following table expresses items from our consolidated statements of operations, as a percentage of net sales:

	Year Ended February 2, 2008	Year Ended February 3, 2007	Year Ended January 28, 2006
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**65.6%**	65.8%	65.5%
Gross profit	**34.4%**	34.2%	34.5%
Selling, general and administrative expenses	**26.6%**	26.4%	26.2%
Operating income	**7.8%**	7.8%	8.3%
Interest income	**0.1%**	0.2%	0.2%
Interest expense	**(0.4%)**	(0.4%)	(0.4%)
Income before income taxes	**7.5%**	7.6%	8.1%
Provision for income taxes	**(2.8%)**	(2.8%)	(3.0%)
Net income	**4.7%**	4.8%	5.1%

Fiscal year ended February 2, 2008 compared to fiscal year ended February 3, 2007

Net Sales. Net sales increased 6.9%, or $273.2 million, in 2007 compared to 2006, resulting primarily from sales in our new and expanded stores. Our sales increase was also impacted by a 2.7% increase in comparable store net sales for the year. This increase is based on the comparable 52-weeks for both years. These increases were partially offset by an extra week of sales in 2006 due to the 53-week retail calendar for 2006. On a comparative 52-week basis, sales increased approximately 8.8% in 2007 compared to 2006. Comparable store net sales are positively affected by our expanded and relocated stores, which we include in the calculation, and, to a lesser extent, are negatively affected when we open new stores or expand stores near existing ones.

The following table summarizes the components of the changes in our store count for fiscal years ended February 2, 2008 and February 3, 2007.

	February 2, 2008	February 3, 2007
New stores	**208**	190
Deal$ acquisition	**—**	138
Acquired leases	**32**	21
Expanded or relocated stores	**102**	85
Closed stores	**(48)**	(44)

Of the 2.1 million selling square foot increase in 2007 approximately 0.4 million was added by expanding existing stores.

Gross Profit. Gross profit margin increased to 34.4% in 2007 compared to 34.2% in 2006. The increase was primarily due to a 50 basis point decrease in merchandise cost, including inbound freight, due to improved initial mark-up in many categories in the current year. This decrease was partially offset by a 40 basis point increase in occupancy costs due to the loss of leverage from the extra week of sales in the prior year and the lower comparable store net sales in the current year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, as a percentage of net sales, increased to 26.6% for 2007 compared to 26.4% for 2006. The increase is primarily due to the following:

- Operating and corporate expenses increased approximately 25 basis points due to increased debit and credit fees resulting from increased debit transactions in the current year and the roll-out of VISA credit at October 31, 2007. Also, in 2006, we had approximately 10 basis points of income related to early lease terminations.
- Occupancy costs increased 15 basis points primarily due to increased repairs and maintenance costs in the current year.

- Partially offsetting these increases was an approximate 15 basis point decrease in depreciation expense due to the expiration of the depreciable life on much of the supply chain hardware and software placed in service in 2002.

Operating Income. Due to the reasons discussed above, operating income margin was 7.8% in 2007 and 2006.

Income Taxes. Our effective tax rate was 37.1% in 2007 compared to 36.6% in 2006. The increase in the rate for 2007 reflects a reduction of tax-exempt interest income in the current year due to lower investment levels resulting from increased share repurchase activity and an increase in tax reserves in accordance with the Financial Accounting Standards Board's Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. These increases more than offset a slight decrease in our net state tax rate.

Fiscal year ended February 3, 2007 compared to fiscal year ended January 28, 2006

Net Sales. Net sales increased 16.9%, or $575.5 million, in 2006 compared to 2005, resulting from sales in our new and expanded stores, including 138 Deal$ stores acquired in March 2006 and the 53 weeks of sales in 2006 versus 52 weeks in 2005, which accounted for approximately $70 million of the increase. Our sales increase was also impacted by a 4.6% increase in comparable store net sales for the year. This increase is based on a 53-week comparison for both periods. Comparable store net sales are positively affected by our expanded and relocated stores, which we include in the calculation, and, to a lesser extent, are negatively affected when we open new stores or expand stores near existing ones.

The following table summarizes the components of the changes in our store count for fiscal years ended February 3, 2007 and January 28, 2006.

	February 3, 2007	January 28, 2006
New stores	**190**	197
Deal$ acquisition	**138**	—
Acquired leases	**21**	35
Expanded or relocated stores	**85**	93
Closed stores	**(44)**	(53)

Of the 3.3 million selling square foot increase in 2006, approximately 1.2 million resulted from the acquisition of the Deal$ stores and 0.4 million was added by expanding existing stores.

Gross Profit. Gross profit margin decreased to 34.2% in 2006 compared to 34.5% in 2005. The decrease was primarily due to a 35 basis point increase in merchandise cost, including inbound freight. This increase in merchandise cost was due to a slight shift in mix to more consumables, which have a lower margin, higher cost merchandise at our Deal$ stores and increased inbound domestic freight costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, as a percentage of net sales, increased to 26.4% for 2006 as compared to 26.2% for 2005. The increase is primarily due to the following:

- Payroll and benefit related costs increased 35 basis points due to increased incentive compensation costs resulting from better overall company performance in 2006 as compared to 2005 and increased stock compensation expense, partially offset by lower workers' compensation costs in 2006.
- Operating and corporate expenses decreased 10 basis points primarily as the result of payments received for early lease terminations in 2006.

Operating Income. Due to the reasons discussed above, operating income margin decreased to 7.8% in 2006 compared to 8.3% in 2005.

Income Taxes. Our effective tax rate was 36.6% in 2006 compared to 36.8% in 2005. The decreased tax rate for 2006 was due primarily to increased tax-exempt interest on certain of our investments in 2006.

Liquidity and Capital Resources

Our business requires capital to build and open new stores, expand our distribution network and operate existing stores. Our working capital requirements for existing stores are seasonal and usually reach their peak in September and October. Historically, we have satisfied our seasonal working capital requirements for existing stores and have funded our store opening and distribution network expansion programs from internally generated funds and borrowings under our credit facilities.

The following table compares cash-related information for the years ended February 2, 2008, February 3, 2007, and January 28, 2006:

(in millions)	**Year Ended February 2, 2008**	Year Ended February 3, 2007	Year Ended January 28, 2006
Net cash provided by (used in):			
Operating activities	**$ 367.3**	$ 412.8	$ 365.1
Investing activities	**(22.7)**	(190.7)	(235.5)
Financing activities	**(389.0)**	(202.9)	(170.3)

Net cash provided by operating activities decreased $45.5 million compared to last year due to increased working capital requirements in the current year and increases in the provision for deferred taxes, partially offset by improved earnings before depreciation and amortization in the current year.

Net cash used in investing activities decreased $168.0 million compared to last year. This decrease is due to $129.1 million of increased proceeds from short-term investment activity in the current year to fund increased capital stock repurchases and $54.1 million used in the prior year to acquire Deal$ assets. These were partially offset by increased capital expenditures in the current year resulting from the Briar Creek distribution center and the corporate headquarters expansions.

Net cash used in financing activities increased $186.1 million due primarily to increased stock repurchases in the current year partially offset by increased proceeds from stock option exercises in the current year resulting from the Company's higher stock price earlier in the year.

The $47.7 million increase in cash provided by operating activities in 2006 as compared to 2005 was primarily due to increased earnings before depreciation and better payables management in 2006, partially offset by approximately $28.9 million of rent payments for February 2007 made prior to the end of fiscal 2006.

The $44.8 million decrease in cash used in investing activities in 2006 compared to 2005 was the result of a $114.9 million increase in net proceeds from short-term investments which were used to help fund stock repurchases and the Deal$ acquisition in 2006. In 2006, we purchased an additional $9.3 million, net, of investments in a restricted account to collateralize certain long-term insurance obligations. Additional uses of cash for investing activities consisted of $54.1 million for the Deal$ acquisition in 2006 and an increase of $36.1 million in capital expenditures due primarily to new store growth and the installation of freezers and coolers to certain stores in 2006.

The $32.6 million increase in cash used in financing activities in 2006 compared to 2005 primarily resulted from $248.2 million in stock repurchases in 2006 compared to $180.4 million in 2005. This increase was partially offset by increased proceeds from stock option exercises in 2006 resulting from our higher stock prices in 2006 as compared to 2005.

At February 2, 2008, our long-term borrowings were $268.5 million and our capital lease commitments were $0.9 million. We also have $125.0 million and $50.0 million Letter of Credit Reimbursement and Security Agreements, under which approximately $88.9 million were committed to letters of credit issued for routine purchases of imported merchandise at February 2, 2008.

On February 20, 2008, we entered into a five-year $550.0 million Credit Agreement (the Agreement). The Agreement provides for a $300.0 million revolving line of credit, including up to $150.0 million in available letters of credit, and a $250.0 million term loan. Our March 2004, $450.0 million unsecured revolving credit facility was terminated concurrent with entering into the Agreement.

In March 2005, our Board of Directors authorized the repurchase of up to $300.0 million of our common stock through March 2008. In November 2006, our Board of Directors authorized the repurchase of up to $500.0 million of our common stock. This amount was in addition to the $27.0 million remaining on the March 2005 authorization. Then, in October 2007, our Board of Directors authorized the repurchase of an additional $500.0 million of our common stock. This authorization was in addition to the November 2006 authorization which had approximately $98.4 million remaining at the time.

In December 2006, we entered into two agreements with a third party to repurchase approximately $100.0 million of our common shares under an Accelerated Share Repurchase Agreement.

The first $50.0 million was executed in an "uncollared" agreement. In this transaction we initially received 1.7 million shares based on the market price of our stock of $30.19 as of the trade date (December 8, 2006). A weighted average price of $32.17 was calculated using stock prices from December 16, 2006 – March 8, 2007. This represented the calculation period for the weighted average price. Based on this weighted average price, we paid the third party an additional $3.3 million on March 8, 2007 for the 1.7 million shares delivered under this agreement.

The remaining $50.0 million was executed under a "collared" agreement. Under this agreement, we initially received 1.5 million shares through December 15, 2006, 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 number of shares received under the agreement was determined based on the weighted average market price of our common stock, net of a predetermined discount, during the time after the initial execution date through March 8, 2007. The calculated weighted average market price through March 8, 2007, net of a predetermined discount, as defined in the "collared" agreement, was $31.97. Therefore, on March 8, 2007, we received an additional 0.1 million shares under the "collared" agreement resulting in 1.6 million total shares being repurchased under this agreement.

On March 29, 2007, we entered into an agreement with a third party to repurchase $150.0 million of our common shares under an Accelerated Share Repurchase Agreement. The entire $150.0 million was executed under a "collared" agreement. Under this agreement, we initially received 3.6 million shares through April 12, 2007, 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 number of shares was determined based on the weighted average market price of our common stock during the four months after the initial execution date. The calculated weighted average market price through July 30, 2007, net of a predetermined discount, as defined in the "collared" agreement, was $40.78. Therefore, on July 30, 2007, we received an additional 0.1 million shares under the "collared" agreement resulting in 3.7 million total shares being repurchased under this agreement.

On August 30, 2007, we entered into an agreement with a third party to repurchase $100.0 million of our common shares under an Accelerated Share Repurchase Agreement. The entire $100.0 million was executed under a "collared" agreement. Under this agreement, we initially received 2.1 million shares through September 10, 2007, 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 number of shares received under the agreement was determined based on the weighted average market price of our common stock, net of a predetermined discount, during the time after the initial execution date through a period of up to four and one half months. The contract terminated on October 22, 2007 and the weighted average price through that date was $41.16. Therefore, on October 22, 2007, we received an additional 0.3 million shares resulting in 2.4 million total shares repurchased under this agreement.

We repurchased approximately 12.8 million shares for approximately $473.0 million in fiscal 2007, approximately 8.8 million shares for approximately $248.2 million in fiscal 2006 and approximately 7.0 million shares for approximately $180.4 million in fiscal 2005. At February 2, 2008, the Company had approximately $453.7 million remaining under Board authorization.

Funding Requirements

Overview

We expect our cash needs for opening new stores and expanding existing stores in fiscal 2008 to total approximately $176.0 million, which includes capital expenditures, initial inventory and pre-opening costs. Our estimated capital expenditures for fiscal 2008 are between $155.0 and $165.0 million, including planned expenditures for our new and expanded stores, the addition of freezers and coolers to approximately 150 stores and completion of the expansion to our home office and data center in Chesapeake, VA. We believe that we can adequately fund our working capital requirements and planned capital expenditures for the next few years from net cash provided by operations and potential borrowings under our existing credit facility.

The following tables summarize our material contractual obligations at February 2, 2008, including both on- and off-balance sheet arrangements, and our commitments, excluding interest on long-term borrowings (in millions):

Contractual Obligations	Total	2008	2009	2010	2011	2012	Thereafter
Lease Financing							
Operating lease obligations	$1,363.2	$319.0	$284.3	$238.4	$185.8	$129.9	$205.8
Capital lease obligations	0.9	0.3	0.3	0.2	0.1	—	—
Long-term Borrowings							
Revolving credit facility	250.0	—	250.0	—	—	—	—
Revenue bond financing	18.5	18.5	—	—	—	—	—
Interest on long-term borrowings	13.7	11.8	1.9	—	—	—	—
Total obligations	$1,646.3	$349.6	$536.5	$238.6	$185.9	$129.9	$205.8

Commitments	Total	Expiring in 2008	Expiring in 2009	Expiring in 2010	Expiring in 2011	Expiring in 2012	Thereafter
Letters of credit and surety bonds	$ 108.7	$108.1	$ 0.6	$ —	$ —	$ —	$ —
Freight contracts	191.2	85.0	83.7	14.5	4.5	3.5	—
Technology assets	5.1	5.1	—	—	—	—	—
Total commitments	$ 305.0	$198.2	$ 84.3	$ 14.5	$ 4.5	$ 3.5	$ —

Lease Financing

Operating Lease Obligations. Our operating lease obligations are primarily for payments under non-cancelable store leases. The commitment includes amounts for leases that were signed prior to February 2, 2008 for stores that were not yet open on February 2, 2008.

Capital Lease Obligations. Our capital lease obligations are primarily for distribution center equipment and computer equipment at the store support center.

Revolving Credit Facility. In March 2004, we entered into a five-year Revolving Credit Facility (the Facility). The Facility provides for a $450.0 million line of credit, including up to $50.0 million in available letters of credit. Interest is assessed under the line based on matrix pricing which currently approximates LIBOR, plus 0.475%. This rate was 4.47% at February 2, 2008. The Facility also bears a facilities fee, calculated as a percentage, as defined, of the amount available under the facility, payable quarterly. The Facility, 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. The Facility also bears an administrative fee payable annually. We used availability under this Facility to repay the $142.6 million of variable-rate debt and to purchase short-term investments. As of February 2, 2008, we had $250.0 million outstanding on this Facility.

On February 20, 2008, we entered into a five-year $550.0 million Credit Agreement (the Agreement). The Agreement provides for a $300.0 million revolving line of credit, including up to $150.0 million in available letters of credit, and a $250.0 million term loan. The interest rate on the facility will be based, at our 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 term loan is due and payable in full at the five year maturity date of the Agreement. The Agreement also bears an administrative fee payable annually. 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. Our March 2004, $450.0 million unsecured revolving credit facility was terminated concurrent with entering into the Agreement.

Revenue Bond Financing. In May 1998, we entered into an agreement with the Mississippi Business Finance Corporation under which it issued $19.0 million of variable-rate demand revenue bonds. We used the proceeds from the bonds to finance the acquisition, construction and installation of land, buildings, machinery and equipment for our distribution facility in Olive Branch, Mississippi. At February 2, 2008, the balance outstanding on the bonds was $18.5 million. These bonds are due to be fully repaid in June 2018. The bonds do not have a prepayment penalty as long as the interest rate remains variable. The bonds contain a demand provision and, therefore, outstanding amounts are classified as current liabilities. We pay interest monthly based on a variable interest rate, which was 3.38% at February 2, 2008.

Interest on Long-term Borrowings. This amount represents interest payments on the revolving credit facility and the revenue bond financing using the interest rates for each at February 2, 2008.

Commitments

Letters of Credit and Surety Bonds. In March 2001, we entered into a Letter of Credit Reimbursement and Security Agreement, which provides $125.0 million for letters of credit. In December 2004, we entered into an additional Letter of Credit Reimbursement and Security Agreement, which provides $50.0 million for letters of credit. Letters of credit are generally issued for the routine purchase of imported merchandise and we had approximately $88.9 million of purchases committed under these letters of credit at February 2, 2008.

We also have approximately $19.8 million of letters of credit or surety bonds outstanding for our self-insurance programs and certain utility payment obligations at some of our stores.

Freight Contracts. We have contracted outbound freight services from various carriers with contracts expiring through February 2013. The total amount of these commitments is approximately $191.2 million.

Technology Assets. We have commitments totaling approximately $5.1 million to primarily purchase store technology assets for our stores during 2008.

Derivative Financial Instruments

We are party to one interest rate swap, which allows us to manage the risk associated with interest rate fluctuations on the demand revenue bonds. The swap is based on a notional amount of $18.5 million. Under the $18.5 million agreement, as amended, we pay interest to the bank that provided the swap at a fixed rate. In exchange, the financial institution pays us at a variable-interest rate, which is similar to the rate on the demand revenue bonds. The variable-interest rate on the interest rate swap is set monthly. No payments are made by either party under the swap for monthly periods with an established interest rate greater than a predetermined rate (the knock-out rate). The swap may be canceled by the bank or us and settled for the fair value of the swap as determined by market rates and expires in 2009.

Because of the knock-out provision in the $18.5 million swap, changes in the fair value of that swap are recorded in earnings. For more information on the interest rate swaps, see "Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk."

On March 20, 2008, we entered into two $75.0 million interest rate swap agreements. These interest rate swaps are used to manage the risk associated with interest rate fluctuations on a portion of our $250.0 million variable rate term note. Under these agreements, we pay interest to financial institutions at a fixed rate of 2.8%. In exchange, the financial institutions pay us at a variable rate, which approximates the variable rate on the debt, excluding the credit spread. We believe these swaps are highly effective as the interest reset dates and the underlying interest rate indices are identical for the swaps and the debt. These swaps qualify for hedge accounting treatment pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. These swaps expire in March 2011.

Critical Accounting Policies

The preparation of financial statements requires the use of estimates. Certain of our estimates require a high level of judgment and have the potential to have a material effect on the financial statements if actual results vary significantly from those estimates. Following is a discussion of the estimates that we consider critical.

Inventory Valuation

As discussed in Note 1 to the Consolidated Financial Statements, inventories at the distribution centers are stated at the lower of cost or market with cost determined on a weighted-average basis. Cost is assigned to store inventories using the retail inventory method on a weighted-average basis. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are computed by applying a calculated cost-to-retail ratio to the retail value of inventories. The retail inventory method is an averaging method that has been widely used in the retail industry and results in valuing inventories at lower of cost or market when markdowns are taken as a reduction of the retail value of inventories on a timely basis.

Inventory valuation methods require certain significant management estimates and judgments, including estimates of future merchandise markdowns and shrink, which significantly affect the ending inventory valuation at cost as well as the resulting gross margins. The averaging required in applying the retail inventory method and the estimates of shrink and markdowns could, under certain circumstances, result in costs not being recorded in the proper period.

We estimate our markdown reserve based on the consideration of a variety of factors, including, but not limited to, quantities of slow moving or seasonal, carryover merchandise on hand, historical markdown statistics and future merchandising plans. The accuracy of our estimates can be affected by many factors, some of which are outside of our control, including changes in economic conditions and consumer buying trends. Historically, we have not experienced significant differences in our estimated reserve for markdowns compared with actual results.

Our accrual for shrink is based on the actual, historical shrink results of our most recent physical inventories adjusted, if necessary, for current economic conditions. These estimates are compared to actual results as physical inventory counts are taken and reconciled to the general ledger. Our physical inventory counts are generally taken between January and September of each year; therefore, the shrink accrual recorded at February 2, 2008 is based on estimated shrink for most of 2007, including the fourth quarter. We have not experienced significant fluctuations in historical shrink rates beyond approximately 10 basis points in our Dollar Tree stores for the last two years. However, we have sometimes experienced higher than typical shrink in acquired stores in the year following an acquisition. We periodically adjust our shrink estimates to address these factors as they become apparent.

Our management believes that our application of the retail inventory method results in an inventory valuation that reasonably approximates cost and results in carrying inventory at the lower of cost or market each year on a consistent basis.

Accrued Expenses

On a monthly basis, we estimate certain expenses in an effort to record those expenses in the period incurred. Our most material estimates include domestic freight expenses, self-insurance programs, store-level operating expenses, such as property taxes and utilities, and certain other expenses. Our freight and store-level operating expenses are estimated based on current activity and historical trends and results. Our workers' compensation and general liability insurance accruals are recorded based on actuarial valuations which are adjusted annually based on a review performed by a third-party actuary. These actuarial valuations are estimates based on historical loss development factors. Certain other expenses are estimated and recorded in the periods that management becomes aware of them. The related accruals are adjusted as management's estimates change. Differences in management's estimates and assumptions could result in an accrual materially different from the calculated accrual. Our experience has been that some of our estimates are too high and others are too low. Historically, the net total of these differences has not had a material effect on our financial condition or results of operations.

Income Taxes

On a quarterly basis, we estimate our required income tax liability and assess the recoverability of our deferred tax assets. Our income taxes payable are estimated based on enacted tax rates, including estimated tax rates in states where our store base is growing, applied to the income expected to be taxed currently. Management assesses the recoverability of deferred tax assets based on the availability of carrybacks of future deductible amounts and management's projections for future taxable income. We cannot guarantee that we will generate taxable income in future years. Historically, we have not experienced significant differences in our estimates of our tax accrual.

In addition, we have a recorded liability for our estimate of uncertain tax positions taken or expected to be taken in a tax return. Judgment is required in evaluating the application of federal and state tax laws, including relevant case law, and assessing whether it is more likely than not that a tax position will be sustained on examination and, if so, judgment is also required as to the measurement of the amount of tax benefit that will be realized upon settlement with the taxing authority. Income tax expense is adjusted in the period in which new information about a tax position becomes available or the final outcome differs from the amounts recorded. We believe that our liability for uncertain tax positions is adequate. For further discussion of our changes in reserves during 2007, see Note 3 to the Consolidated Financial Statements.

Seasonality and Quarterly Fluctuations

We experience seasonal fluctuations in our net sales, comparable store net sales, operating income and net income and expect this trend to continue. Our results of operations may also fluctuate significantly as a result of a variety of factors, including:

- Shifts in the timing of certain holidays, especially Easter;
- The timing of new store openings;
- The net sales contributed by new stores;
- Changes in our merchandise mix; and
- Competition.

Our highest sales periods are the Christmas and Easter seasons. Easter was observed on April 16, 2006, April 8, 2007, and will be observed on March 23, 2008. We believe that the earlier Easter in 2008 could potentially result in $25 million of lost sales when compared to the first quarter of 2007. We generally realize a disproportionate amount of our net sales and of our operating and net income during the fourth quarter. In anticipation of increased sales activity during these months, we purchase substantial amounts of inventory and hire a significant number of temporary employees to supplement our continuing store staff. Our operating results, particularly operating and net income, could suffer if our net sales were below seasonal norms during the fourth quarter or during the Easter season for any reason, including merchandise delivery delays due to receiving or distribution problems, consumer sentiment or inclement weather. Fiscal 2006 consisted of 53 weeks, commensurate with the retail calendar. This extra week contributed approximately $70 million of sales in 2006 compared to 2007. Fiscal 2007 consisted of 52 weeks. In fiscal 2008, there is one fewer weekend between Thanksgiving and Christmas compared to fiscal 2007. We believe this could potentially reduce the total foot traffic in our stores for the Christmas holiday in fiscal 2008 compared to fiscal 2007.

Our unaudited results of operations for the eight most recent quarters are shown in a table in Note 12 of the Consolidated Financial Statements.

Inflation and Other Economic Factors

Our ability to provide quality merchandise at a fixed price and on a profitable basis may be subject to economic factors and influences that we cannot control. Consumer spending could decline because of economic pressures, including rising fuel prices. Reductions in consumer confidence and spending could have an adverse effect on our sales. National or international events, including war or terrorism, could lead to disruptions in economies in the United States or in foreign countries where we purchase some of our merchandise. These and other factors could increase our merchandise costs and other costs that are critical to our operations, such as shipping and wage rates.

Shipping Costs. Currently, trans-Pacific shipping rates are negotiated with individual freight lines and are subject to fluctuation based on supply and demand for containers and current fuel costs. As a result, our trans-Pacific shipping costs in fiscal 2008 may increase compared with fiscal 2007 when we renegotiate our import shipping rates effective May 2008. We can give no assurances as to the amount of the increase, as we are in the early stages of our negotiations.

Minimum Wage. On May 25, 2007, the President signed legislation that increased the Federal Minimum Wage from $5.15 an hour to $7.25 an hour by June 2009. We do not expect this legislation to have a material effect on our operations in fiscal 2008.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurement* (SFAS No. 157). SFAS No. 157, effective for interim or annual reporting periods beginning after November 15, 2007, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. We will adopt this statement in the first quarter of 2008 and we do not expect it to have a material effect on our consolidated financial statements.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. We adopted FIN 48 in the first quarter of 2007. For further discussion of the effect of the adoption of FIN 48, see Notes 1 and 3 of the Consolidated Financial Statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risk in the normal course of our business, including the impact of interest rate changes and foreign currency rate fluctuations. We may enter into interest rate swaps to manage exposure to interest rate changes, and we may employ other risk management strategies, including the use of foreign currency forward contracts. We do not enter into derivative instruments for any purpose other than cash flow hedging purposes and we do not hold derivative instruments for trading purposes.

Interest Rate Risk

We use variable-rate debt to finance certain of our operations and capital improvements. These obligations expose us to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense also decreases. We believe it is beneficial to limit the variability of our interest payments.

To meet this objective, we entered into a derivative instrument in the form of an interest rate swap to manage fluctuations in cash flows resulting from changes in the variable-interest rates on the Demand Revenue Bonds. The interest rate swap reduces the interest rate exposure on this variable-rate obligation. Under the interest rate swap, we pay the bank at a fixed-rate and receive variable-interest at a rate approximating the variable-rate on the obligation, thereby creating the economic equivalent of a fixed-rate obligation. Under the swap, no payments are made by parties under the swap for monthly periods in which the variable-interest rate is greater than the predetermined knock-out rate.

The following table summarizes the financial terms of our interest rate swap agreement and the fair value of the interest rate swap at February 2, 2008:

Hedging Instrument	Receive Variable	Pay Fixed	Knock-out Rate	Expiration	Fair Value
$18.5 million interest rate swap	LIBOR	4.88%	7.75%	4/1/09	$0.5 million

Hypothetically, a 1% change in interest rates results in approximately a $0.2 million change in the amount paid or received under the terms of the interest rate swap agreement on an annual basis. Due to many factors, management is not able to predict the changes in fair value of our interest rate swap. These fair values are obtained from an outside financial institution.

On March 20, 2008, we entered into two $75.0 million interest rate swap agreements. These interest rate swaps are used to manage the risk associated with interest rate fluctuations on a portion of our $250.0 million variable rate term note. Under these agreements, we pay interest to financial institutions at a fixed rate of 2.8%. In exchange, the financial institutions pay us at a variable rate, which approximates the variable rate on the debt, excluding the credit spread. We believe these swaps are highly effective as the interest reset dates and the underlying interest rate indices are identical for the swaps and the debt. These swaps qualify for hedge accounting treatment pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and expire in March 2011.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Dollar Tree, Inc. (formerly Dollar Tree Stores, Inc.):

We have audited the accompanying consolidated balance sheets of Dollar Tree, Inc. (formerly Dollar Tree Stores, Inc.) and subsidiaries (the Company) as of February 2, 2008 and February 3, 2007, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the fiscal years in the three-year period ended February 2, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 2, 2008 and February 3, 2007, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended February 2, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective February 4, 2007, and Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, effective January 29, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Dollar Tree, Inc.'s (formerly Dollar Tree Stores, Inc.) internal control over financial reporting as of February 2, 2008, based on criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 1, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Norfolk, Virginia
April 1, 2008

Consolidated Statements of Operations

(in millions, except per share data)	**Year Ended February 2, 2008**	Year Ended February 3, 2007	Year Ended January 28, 2006
Net sales	**$4,242.6**	$3,969.4	$3,393.9
Cost of sales (Note 4)	**2,781.5**	2,612.2	2,221.5
Gross profit	**1,461.1**	1,357.2	1,172.4
Selling, general and administrative expenses (Notes 8 and 9)	**1,130.8**	1,046.4	888.5
Operating income	**330.3**	310.8	283.9
Interest income	**6.7**	8.6	6.8
Interest expense (Notes 5 and 6)	**(17.2)**	(16.5)	(15.5)
Income before income taxes	**319.8**	302.9	275.2
Provision for income taxes (Note 3)	**118.5**	110.9	101.3
Net income	**$ 201.3**	$ 192.0	$ 173.9
Basic net income per share (Note 7)	**$ 2.10**	$ 1.86	$ 1.61
Diluted net income per share (Note 7)	**$ 2.09**	$ 1.85	$ 1.60

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(in millions, except share data)	**February 2, 2008**	February 3, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 40.6**	$ 85.0
Short-term investments	**40.5**	221.8
Merchandise inventories	**641.2**	605.0
Deferred tax assets (Note 3)	**17.3**	10.7
Prepaid expenses and other current assets	**49.2**	45.4
Total current assets	**788.8**	967.9
Property, plant and equipment, net (Note 2)	**743.6**	715.3
Goodwill (Note 10)	**133.3**	133.3
Other intangibles, net (Notes 2 and 10)	**14.5**	13.3
Deferred tax assets (Note 3)	**38.7**	—
Other assets, net (Notes 2, 8 and 11)	**68.8**	52.4
TOTAL ASSETS	**$1,787.7**	$1,882.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	**$ 18.5**	$ 18.8
Accounts payable	**200.4**	198.1
Other current liabilities (Note 2)	**143.6**	132.0
Income taxes payable	**43.4**	43.3
Total current liabilities	**405.9**	392.2
Long-term debt, excluding current portion (Note 5)	**250.0**	250.0
Income taxes payable, long-term (Note 3)	**55.0**	—
Deferred tax liabilities (Note 3)	**—**	1.5
Other liabilities (Notes 6 and 8)	**88.4**	70.8
Total liabilities	**799.3**	714.5
Commitments, contingencies and subsequent events (Notes 1,4,5 and 6)		
Shareholders' equity (Notes 6, 7 and 9):		
Common stock, par value $0.01. 300,000,000 shares authorized, 89,784,776 and 99,663,580 shares issued and outstanding at February 2, 2008 and February 3, 2007, respectively	**0.9**	1.0
Additional paid-in capital	**—**	—
Accumulated other comprehensive income (loss)	**0.1**	0.1
Retained earnings	**987.4**	1,166.6
Total shareholders' equity	**988.4**	1,167.7
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$1,787.7**	$1,882.2

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Years Ended February 2, 2008, February 3, 2007 and January 28, 2006

(in millions)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Retained Earnings	Shareholders' Equity
Balance at January 29, 2005	113.0	$1.1	$177.7	$(0.3)	$(0.1)	$985.8	$1,164.2
Net income for the year ended January 28, 2006	—	—	—	—	—	173.9	173.9
Other comprehensive income (Note 7)	—	—	—	0.4	—	—	0.4
Total comprehensive income							174.3
Issuance of stock under Employee Stock Purchase Plan (Note 9)	0.1	—	3.0	—	—	—	3.0
Exercise of stock options, including income tax benefit $1.2 (Note 9)	0.4	—	8.8	—	—	—	8.8
Repurchase and retirement of shares (Note 7)	(7.0)	—	(180.3)	—	—	—	(180.3)
Stock-based compensation (Notes 1 and 9)	—	—	2.2	—	0.1	—	2.3
Balance at January 28, 2006	106.5	1.1	11.4	0.1	—	1,159.7	1,172.3
Net income for the year ended February 3, 2007	—	—	—	—	—	192.0	192.0
Other comprehensive income (Note 7)	—	—	—	—	—	—	—
Total comprehensive income							192.0
Issuance of stock under Employee Stock Purchase Plan (Note 9)	0.1	—	2.8	—	—	—	2.8
Exercise of stock options, including income tax benefit of $5.6 (Note 9)	1.7	—	43.1	—	—	—	43.1
Repurchase and retirement of shares (Note 7)	(8.8)	(0.1)	(63.0)	—	—	(185.1)	(248.2)
Stock-based compensation, net (Notes 1 and 9)	0.1	—	5.7	—	—	—	5.7
Balance at February 3, 2007	99.6	1.0	—	0.1	—	1,166.6	1,167.7
Net income for the year ended February 2, 2008	—	—	—	—	—	201.3	201.3
Other comprehensive income (Note 7)	—	—	—	—	—	—	—
Total comprehensive income							201.3
Adoption of FIN 48 (Note 3)	—	—	—	—	—	(0.6)	(0.6)
Issuance of stock under Employee Stock Purchase Plan (Note 9)	0.1	—	—	—	—	3.5	3.5
Exercise of stock options, including income tax benefit of $13.0 (Note 9)	2.7	—	—	—	—	81.1	81.1
Repurchase and retirement of shares (Note 7)	(12.8)	(0.1)	—	—	—	(472.9)	(473.0)
Stock-based compensation, net (Notes 1 and 9)	0.2	—	—	—	—	8.4	8.4
Balance at February 2, 2008	**89.8**	**$ 0.9**	**$ —**	**$ 0.1**	**$ —**	**$ 987.4**	**$ 988.4**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(in millions)	**Year Ended February 2, 2008**	Year Ended February 3, 2007	Year Ended January 28, 2006
Cash flows from operating activities:			
Net income	**$ 201.3**	$ 192.0	$ 173.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**159.3**	159.0	140.7
Provision for deferred income taxes	**(46.8)**	(21.9)	(21.5)
Tax benefit of stock option exercises	**—**	—	1.2
Stock based compensation expense	**11.3**	6.7	2.4
Other non-cash adjustments to net income	**8.0**	5.1	5.6
Changes in assets and liabilities increasing (decreasing) cash and cash equivalents:			
Merchandise inventories	**(36.2)**	(6.2)	38.9
Other assets	**(4.4)**	(19.8)	(5.5)
Accounts payable	**2.3**	53.7	11.4
Income taxes payable	**46.9**	1.6	8.0
Other current liabilities	**8.7**	31.8	(6.4)
Other liabilities	**16.9**	10.8	16.4
Net cash provided by operating activities	**367.3**	412.8	365.1
Cash flows from investing activities:			
Capital expenditures	**(189.0)**	(175.3)	(139.2)
Purchase of short-term investments	**(1,119.2)**	(1,044.4)	(885.5)
Proceeds from maturities of short-term investments	**1,300.5**	1,096.6	822.8
Purchase of restricted investments	**(99.3)**	(84.5)	(69.4)
Proceeds from maturities of restricted investments	**90.9**	75.2	39.5
Purchase of Deal$ assets, net of cash acquired of $0.3	**—**	(54.1)	—
Acquisition of favorable lease rights	**(6.6)**	(4.2)	(3.7)
Net cash used in investing activities	**(22.7)**	(190.7)	(235.5)
Cash flows from financing activities:			
Principal payments under long-term debt and capital lease obligations	**(0.6)**	(0.6)	(0.6)
Borrowings from revolving credit facility	**362.4**	—	—
Repayments of revolving credit facility	**(362.4)**	—	—
Payments for share repurchases	**(473.0)**	(248.2)	(180.4)
Proceeds from stock issued pursuant to stock-based compensation plans	**71.6**	40.3	10.7
Tax benefit of stock options exercised	**13.0**	5.6	—
Net cash used in financing activities	**(389.0)**	(202.9)	(170.3)
Net increase (decrease) in cash and cash equivalents	**(44.4)**	19.2	(40.7)
Cash and cash equivalents at beginning of year	**85.0**	65.8	106.5
Cash and cash equivalents at end of year	**$ 40.6**	$ 85.0	$ 65.8
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	**$ 18.7**	$ 14.9	$ 11.8
Income taxes	**$ 109.5**	$ 125.5	$ 113.9

Supplemental disclosure of non-cash investing and financing activities:

The Company purchased equipment under capital lease obligations amounting to $0.5 million, $0.1 million and $0.4 million in the years ended February 2, 2008, February 3, 2007, and January 28, 2006, respectively.

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

On March 2, 2008, the Company reorganized by creating a new holding company structure. The primary purpose of the reorganization was to create a more efficient corporate structure. The business operations of the Company and its subsidiaries will not change as a result of this reorganization. As a part of the holding company reorganization, a new parent company, Dollar Tree, Inc., was formed. Outstanding shares of the capital stock of Dollar Tree Stores, Inc., were automatically converted, on a share for share basis, into identical shares of common stock of the new holding company. The articles of incorporation, the bylaws, the executive officers and the board of directors of the new holding company are the same as those of the former Dollar Tree Stores, Inc. in effect immediately prior to the reorganization. The common stock of the new holding company will continue to be listed on the NASDAQ Global Select Market under the symbol "DLTR". The rights, privileges and interests of the Company's stockholders will remain the same with respect to the new holding company.

At February 2, 2008, Dollar Tree, Inc. (the Company), formerly Dollar Tree Stores, Inc., owned and operated 3,411 discount variety retail stores. Approximately 3,300 of these stores sell substantially all items for $1.00 or less. The remaining stores were acquired as part of the Deal$ acquisition and these stores sell most items for $1.00 or less but also sell items at prices greater than $1.00. The Company's stores operate under the names of Dollar Tree, Deal$ and Dollar Bills. The Company's stores average approximately 8,300 selling square feet.

The Company's headquarters and one of its distribution centers are located in Chesapeake, Virginia. The Company also operates distribution centers in Mississippi, Illinois, California, Pennsylvania, Georgia, Oklahoma, Utah and Washington. The Company's stores are located in all 48 contiguous states. The Company's merchandise includes food, health and beauty care, party goods, candy, toys, stationery, seasonal goods, gifts and other consumer items. Approximately 40% to 45% of the Company's merchandise is imported, primarily from China.

Principles of Consolidation

The consolidated financial statements include the financial statements of Dollar Tree, Inc., and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. Any reference herein to "2007" or "Fiscal 2007," "2006" or "Fiscal 2006," and "2005" or "Fiscal 2005," relates to as of or for the years ended February 2, 2008, February 3, 2007, and January 28, 2006, respectively. Fiscal year 2006 consisted of 53 weeks, while 2007 and 2005 both consisted of 52 weeks.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain 2006 and 2005 amounts have been reclassified for comparability with the current period presentation. The balance sheet at February 3, 2007 presented herein reflects an immaterial correction which increased other current assets and accounts payable by $8.9 million. The gross amount of purchases of restricted investments and proceeds from the maturities of restricted investments have been included in 2006 and 2005. These amounts were previously reported on a net basis.

Cash and Cash Equivalents

Cash and cash equivalents at February 2, 2008 and February 3, 2007 includes $12.8 million and $40.3 million, respectively, of investments in money market securities and bank participation agreements which are valued at cost, which approximates fair value. The underlying assets of these short-term participation agreements are primarily commercial notes. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The majority of payments due from financial institutions for the settlement of debit card and credit card transactions process within three business days, and therefore are classified as cash and cash equivalents.

Short-Term Investments

The Company's short-term investments at February 2, 2008, consist primarily of government-sponsored municipal bonds. These investments are classified as available for sale and are recorded at fair value which approximates cost. The government-sponsored

municipal bonds can be converted into cash depending on terms of the underlying agreement. Short-term investments at February 3, 2007 also included auction rate securities. The auction rate securities have stated interest rates, which typically reset to prevailing market rates every 35 days or less. The securities underlying both the government-sponsored municipal bonds and the auction rate securities have longer legal maturity dates.

Merchandise Inventories

Merchandise inventories at the distribution centers are stated at the lower of cost or market, determined on a weighted average cost basis. Cost is assigned to store inventories using the retail inventory method, determined on a weighted average cost basis.

Costs directly associated with warehousing and distribution are capitalized as merchandise inventories. Total warehousing and distribution costs capitalized into inventory amounted to $26.3 million and $25.6 million at February 2, 2008 and February 3, 2007, respectively.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	39 to 40 years
Furniture, fixtures and equipment	3 to 15 years
Transportation vehicles	4 to 6 years

Leasehold improvements and assets held under capital leases are amortized over the estimated useful lives of the respective assets or the committed terms of the related leases, whichever is shorter. Amortization is included in "selling, general and administrative expenses" on the accompanying consolidated statements of operations.

Costs incurred related to software developed for internal use are capitalized and amortized over three years. Costs capitalized include those incurred in the application development stage as defined in Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite useful lives are not amortized, but rather tested for impairment at least annually. In accordance with SFAS No. 142, goodwill is no longer being amortized, but is tested annually for impairment. In addition, goodwill will be tested on an interim basis if an event or circumstance indicates that it is more likely than not that an impairment loss has been incurred. The Company performed its annual impairment testing in November 2007 and determined that no impairment loss existed. Intangible assets with finite useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144. The Company performs its annual assessment of impairment following the finalization of each November's financial statements.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company reviews its long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets based on discounted cash flows or other readily available evidence of fair value, if any. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. In fiscal 2007, 2006 and 2005, the Company recorded charges of $0.8 million, $0.5 million and $0.2 million, respectively, to write down certain assets. These charges are recorded as a component of "selling, general and administrative expenses" in the accompanying consolidated statements of operations.

Financial Instruments

The Company utilizes derivative financial instruments to reduce its exposure to market risks from changes in interest rates. By entering into receive-variable, pay-fixed interest rate swaps, the Company limits its exposure to changes in variable interest rates. The Company is exposed to credit-related losses in the event of non-performance by the counterparty to the interest rate swaps; however, the counterparties are major financial institutions, and the risk of loss due to non-performance is considered remote. Interest rate differentials paid or received on the swaps are recognized as adjustments to expense in the period earned or incurred. The Company formally documents all hedging relationships, if applicable, and assesses hedge effectiveness both at inception and on an ongoing basis. The Company's remaining interest rate swap does not qualify for hedge accounting treatment pursuant to the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS

133). This interest rate swap is recorded at fair value in the accompanying consolidated balance sheets as a component of "other liabilities" (see Note 6). Changes in the fair value of this interest rate swap are recorded as "interest expense" in the accompanying consolidated statements of operations. The fair value of this interest rate swap at February 2, 2008 was $0.5 million. The fair value at February 3, 2007 was less than $0.1 million.

Lease Accounting

The Company leases all of its retail locations under operating leases. The Company recognizes minimum rent expense starting when possession of the property is taken from the landlord, which normally includes a construction period prior to store opening. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. The Company also receives tenant allowances, which are recorded in deferred rent and are amortized as a reduction of rent expense over the term of the lease.

Revenue Recognition

The Company recognizes sales revenue at the time a sale is made to its customer.

Taxes Collected

The Company reports taxes assessed by a governmental authority that are directly imposed on revenue-producing transactions (i.e., sales tax) on a net (excluded from revenues) basis.

Cost of Sales

The Company includes the cost of merchandise, warehousing and distribution costs, and certain occupancy costs in cost of sales.

Pre-Opening Costs

The Company expenses pre-opening costs for new, expanded and relocated stores, as incurred.

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising costs approximated $8.4 million, $10.6 million and $11.8 million for the years ended February 2, 2008, February 3, 2007, and January 28, 2006, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date of such change.

On February 4, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which clarified the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. With the adoption of FIN 48, the Company includes interest and penalties in the provision for income tax expense and income taxes payable. The Company does not provide for any penalties associated with tax contingencies unless they are considered probable of assessment. Refer to Note 3 for further discussion of income taxes and the impact of adopting FIN 48.

Stock-Based Compensation

Effective, January 29, 2006, the Company adopted Statement of Financial Accounting Standards, No. 123 (revised 2004), *Share-Based Payment*, (SFAS 123R). This statement is a revision of SFAS 123 and supersedes Accounting Principle Board Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB Opinion 25). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The Company adopted SFAS 123R using the modified prospective method, which requires application of the standard to all awards granted, modified, repurchased or cancelled on or after January 29, 2006, and to all awards granted to employees that were unvested as of January 29, 2006. In accordance with the modified prospective method of implementation, 2005 financial statements have not been restated to reflect the impact of SFAS 123R. During 2006, the Company recognized $1.8 million of stock-based compensation expense as a result of the adoption of SFAS 123R. Total stock-based compensation expense for 2007, 2006 and 2005 was $11.3 million, $6.7 million and $2.4 million, respectively. Through January 28, 2006, the Company applied the intrinsic value recognition and measurement principles of APB Opinion 25 and related Interpretations in accounting for its stock-based employee compensation plans. Prior to the adoption of SFAS 123R, the Company reported all tax benefits resulting from the exercise of stock options as operating cash flows in the

Consolidated Statements of Cash Flows. SFAS 123R requires cash flows resulting from the tax deductions in excess of the tax benefits of the related compensation cost recognized in the financial statements (excess tax benefits) to be classified as financing cash flows. Thus, the Company has classified the $13.0 million and $5.6 million of excess tax benefits recognized in 2007 and 2006, respectively, as financing cash flows. Excess tax benefits of $1.2 million recognized in 2005 prior to the adoption of SFAS 123R, are classified as operating cash flows.

If the accounting provisions of SFAS 123 had been applied to 2005, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated in the following table:

(in millions, except per share data)	Year Ended January 28, 2006
Net income as reported	$173.9
Add: Total stock-based employee compensation expense included in net income, net of related tax effects	1.5
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(18.2)
	$157.2
Net income per share:	
Basic, as reported	$ 1.61
Basic, pro forma under FAS 123	1.45
Diluted, as reported	$ 1.60
Diluted, pro forma under FAS 123	1.44

On December 15, 2005, the Compensation Committee of the Board of Directors of the Company approved the acceleration of the vesting date of all previously issued, outstanding and unvested options under all current stock option plans, including the 1995 Stock Incentive Plan, the 2003 Equity Incentive Plan and the 2004 Executive Officer Equity Incentive Plan (EOEP), effective as of December 15, 2005. At the effective date, almost all of these options had exercise prices higher than the actual stock price. The Company made the decision to accelerate vesting of these options to give employees increased performance incentives and to enhance current retention. This decision also eliminated non-cash compensation expense that would have been recorded in future periods following the Company's adoption of SFAS 123R on January 29, 2006. Compensation expense, as determined at the time of the accelerated vesting, has been reduced by $14.9 million, over a period of four years during which the options would have vested, as a result of the option acceleration program. This amount is net of compensation expense of $0.1 million recognized in fiscal 2005 for estimated forfeiture of certain (in the money) options.

The Company recognizes expense related to the fair value of restricted stock units (RSUs) over the requisite service period. The fair value of the RSUs is determined using the closing price of the Company's common stock on the date of grant.

On March 14, 2008, the Board of Directors granted approximately 0.3 million restricted stock units and options to purchase 0.4 million shares of the Company's common stock under the Company's Equity Incentive Plan and the EOEP.

Net Income Per Share

Basic net income per share has been computed by dividing net income by the weighted average number of shares outstanding. Diluted net income per share reflects the potential dilution that could occur assuming the inclusion of dilutive potential shares and has been computed by dividing net income by the weighted average number of shares and dilutive potential shares outstanding. Dilutive potential shares include all outstanding stock options and unvested restricted stock, excluding certain performance based restricted stock grants, after applying the treasury stock method.

NOTE 2 – BALANCE SHEET COMPONENTS

Other Intangibles, Net

Intangibles, net, as of February 2, 2008 and February 3, 2007 consist of the following:

(in millions)	**February 2, 2008**	February 3, 2007
Non-competition agreements	**$ 6.4**	$ 6.4
Accumulated amortization	**(5.9)**	(5.1)
Non-competition agreements, net	**0.5**	1.3
Favorable lease rights	**25.1**	19.0
Accumulated amortization	**(11.1)**	(7.0)
Favorable lease rights, net	**14.0**	12.0
Total other intangibles, net	**$14.5**	$13.3

Non-Competition Agreements

The Company has entered into non-competition agreements with certain former executives of certain acquired entities. These assets are being amortized over the legal term of the individual agreements, ranging from five to ten years.

Favorable Lease Rights

In 2007 and 2006, the Company acquired favorable lease rights for operating leases for retail locations from third parties, including the acquired favorable lease rights in its acquisition of 138 Deal$ stores (see Note 10). The Company's favorable lease rights are amortized on a straight-line basis to rent expense over the remaining initial lease terms, which expire at various dates through 2016. The weighted average life remaining on the favorable lease rights at February 2, 2008 is 50 months.

Amortization expense related to the non-competition agreements and favorable lease rights was $5.4 million, $4.4 million and $3.3 million for the years ended February 2, 2008, February 3, 2007 and January 28, 2006, respectively. Estimated annual amortization expense for the next five years follows: 2008 - $4.9 million, 2009 - $3.2 million, 2010 - $2.5 million, 2011 - $1.9 million, and 2012 - $1.1 million.

Property, Plant and Equipment, Net

Property, plant and equipment, net, as of February 2, 2008 and February 3, 2007 consists of the following:

(in millions)	**February 2, 2008**	February 3, 2007
Land	**$ 29.4**	$ 29.4
Buildings	**172.7**	154.7
Improvements	**535.1**	482.3
Furniture, fixtures and equipment	**785.0**	708.6
Construction in progress	**52.9**	38.3
Total property, plant and equipment	**1,575.1**	1,413.3
Less: accumulated depreciation and amortization	**831.5**	698.0
Total property, plant and equipment, net	**$ 743.6**	$ 715.3

Other Assets, Net

Other assets, net includes $47.6 million and $39.2 million at February 2, 2008 and February 3, 2007, respectively of restricted investments. The Company purchased these restricted investments to collateralize long-term insurance obligations. These investments replaced higher cost stand by letters of credit and surety bonds. These investments consist primarily of government-sponsored municipal bonds, similar to our short-term investments. These investments are classified as available for sale and are recorded at fair value, which approximates cost.

Other Current Liabilities

Other current liabilities as of February 2, 2008 and February 3, 2007 consist of accrued expenses for the following:

(in millions)	**February 2, 2008**	February 3, 2007
Compensation and benefits	**$ 45.5**	$ 43.5
Taxes (other than income taxes)	**16.3**	19.5
Insurance	**27.6**	26.8
Other	**54.2**	42.2
Total other current liabilities	**$143.6**	$132.0

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, other current assets, accounts payable and other current liabilities approximate fair value because of the short maturity of these instruments. The carrying values of other long-term financial assets and liabilities, excluding restricted investments, approximate fair value because they are recorded using discounted future cash flows or quoted market rates. Short-term investments and restricted investments are carried at fair value, which approximates cost, in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

The carrying value of the Company's long-term debt approximates its fair value because the debt's interest rates vary with market interest rates.

NOTE 3 – INCOME TAXES

Total income taxes were allocated as follows:

(in millions)	**Year Ended February 2, 2008**	Year Ended February 3, 2007	Year Ended January 28, 2006
Income from continuing operations	**$118.5**	$110.9	$101.3
Accumulated other comprehensive income, marking derivative financial instruments to fair value	**—**	—	0.2
Stockholders' equity, tax benefit on exercise of stock options	**(13.0)**	(5.6)	(1.2)
	$105.5	$105.3	$100.3

The provision for income taxes consists of the following:

(in millions)	**Year Ended February 2, 2008**	Year Ended February 3, 2007	Year Ended January 28, 2006
Federal – current	**$147.5**	$116.2	$108.1
State – current	**17.8**	16.6	14.7
Total current	**165.3**	132.8	122.8
Federal – deferred	**(39.4)**	(19.1)	(20.6)
State – deferred	**(7.4)**	(2.8)	(0.9)
Total deferred	**(46.8)**	(21.9)	(21.5)
Provision for income taxes	**$118.5**	$110.9	$101.3

Included in current tax expense for the year ended February 2, 2008, are amounts related to uncertain tax positions associated with temporary differences, in accordance with FIN 48.

A reconciliation of the statutory federal income tax rate and the effective rate follows:

	Year Ended February 2, 2008	Year Ended February 3, 2007	Year Ended January 28, 2006
Statutory tax rate	**35.0%**	35.0%	35.0%
Effect of:			
State and local income taxes, net of federal income tax benefit	**2.9**	3.3	3.4
Other, net	**(0.8)**	(1.7)	(1.6)
Effective tax rate	**37.1%**	36.6%	36.8%

The rate reduction in "other, net" consists primarily of benefits from the resolution of tax uncertainties, interest on tax reserves, federal jobs credits and tax exempt interest.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are classified on the accompanying consolidated balance sheets based on the classification of the underlying asset or liability. Significant components of the Company's net deferred tax assets (liabilities) follows:

(in millions)	**February 2, 2008**	February 3, 2007
Deferred tax assets:		
Accrued expenses	**$ 38.2**	$ 33.5
Property and equipment	**22.2**	—
State tax net operating losses and credit carryforwards, net of federal benefit	**2.1**	1.3
Accrued compensation expense	**10.7**	9.3
Total deferred tax assets	**73.2**	44.1
Valuation allowance	**(2.1)**	(1.3)
Deferred tax assets, net	**71.1**	42.8
Deferred tax liabilities:		
Intangible assets	**(11.0)**	(9.2)
Property and equipment	**—**	(14.3)
Prepaids	**(2.2)**	(9.0)
Other	**(1.9)**	(1.1)
Total deferred tax liabilities	**(15.1)**	(33.6)
Net deferred tax asset	**$ 56.0**	$ 9.2

A valuation allowance of $2.1 million, net of Federal tax benefits, has been provided principally for certain state net operating losses and credit carryforwards. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred taxes will not be realized. Based upon the availability of carrybacks of future deductible amounts to the past two years' taxable income and management's projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the remaining existing deductible temporary differences will reverse during periods in which carrybacks are available or in which the Company generates net taxable income.

The Internal Revenue Service completed its examination of the 1999 to 2003 consolidated federal income tax returns during 2006. In addition, several states completed their examination of fiscal years prior to 2005. In general, fiscal years 2004 and forward are within the statute of limitations for Federal and state tax purposes. The statute of limitations is still open prior to 2004 for some states.

In June 2006, the Financial Accounting Standards Board issued FIN 48. This Interpretation clarifies accounting for income tax uncertainties recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under the guidelines of FIN 48, an entity should recognize a financial statement benefit for a tax position if it determines that it is more likely than not that the position will be sustained upon examination.

The Company adopted the provisions of FIN 48 on February 4, 2007. As a result, the Company recognized a $0.6 million decrease to retained earnings. The balance for unrecognized tax benefits at February 4, 2007, was $19.1 million. The total amount of unrecognized tax benefits at February 4, 2007, that, if recognized, would affect the effective tax rate was $12.4 million (net of the federal tax benefit). The following is a reconciliation of Dollar Tree's total gross unrecognized tax benefits for the year-to-date period ended February 2, 2008:

	(in millions)
Balance at February 4, 2007	$19.1
Additions, based on tax positions related to current year	8.1
Additions for tax positions of prior years	29.2
Reductions for tax positions of prior years settlements	(0.1)
Lapses in statute of limitations	(1.3)
Balance at February 2, 2008	$55.0

The total amount of unrecognized tax benefits at February 2, 2008, that, if recognized, would affect the effective tax rate was $15.4 million (net of the federal tax benefit).

During fiscal 2007, the Company accrued potential interest of $4.4 million, related to these unrecognized tax benefits. No potential penalties were accrued during 2007 related to the unrecognized tax benefits. As of February 2, 2008, the Company has recorded a liability for potential penalties and interest of $0.1 million and $7.3 million, respectively.

During the next 12 months, it is reasonably possible the Company's reserve for uncertain tax positions will decrease between $34.0 million and $42.0 million. Most of this reduction relates to temporary differences and the related interest expense for which accounting method changes have been filed at the beginning of fiscal year 2008 with the Internal Revenue Service. Voluntarily filing accounting method changes provides audit protection for the issues involved for the open periods in exchange for agreeing to pay the tax over a prescribed period of time. In addition, it is possible that state tax reserves will be reduced for audit settlements and statute expirations within the next 12 months. At this point it is not possible to estimate a range associated with these audits.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

Future minimum lease payments under noncancelable stores and distribution center operating leases are as follows:

	(in millions)
2008	$319.0
2009	284.3
2010	238.4
2011	185.8
2012	129.9
Thereafter	205.8
Total minimum lease payments	$1,363.2

The above future minimum lease payments include amounts for leases that were signed prior to February 2, 2008 for stores that were not open as of February 2, 2008.

Minimum rental payments for operating leases do not include contingent rentals that may be paid under certain store leases based on a percentage of sales in excess of stipulated amounts. Future minimum lease payments have not been reduced by expected future minimum sublease rentals of $2.6 million under operating leases.

Minimum and Contingent Rentals

Rental expense for store and distribution center operating leases (including payments to related parties) included in the accompanying consolidated statements of operations are as follows:

(in millions)	**Year Ended February 2, 2008**	Year Ended February 3, 2007	Year Ended January 28, 2006
Minimum rentals	$295.4	$261.8	$225.8
Contingent rentals	1.2	0.9	0.7

Non-Operating Facilities

The Company is responsible for payments under leases for certain closed stores. The Company was also responsible for payments under leases for two former distribution centers whose leases expired in June 2005 and September 2005. The Company accounts for abandoned lease facilities in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. A facility is considered abandoned on the date that the Company ceases to use it. On this date, the Company records an expense for the present value of the total remaining costs for the abandoned facility reduced by any actual or probable sublease income. Due to the uncertainty regarding the ultimate recovery of the future lease and related payments, the Company recorded charges of $0.1 million, $0.1 million and $0.3 million in 2007, 2006 and 2005, respectively.

Related Parties

The Company also leases properties for six of its stores from partnerships owned by related parties. The total rental payments related to these leases were $0.5 million for each of the years ended February 2, 2008, February 3, 2007 and January 28, 2006, respectively. Total future commitments under related party leases are $0.9 million.

Freight Services

The Company has contracted outbound freight services from various contract carriers with contracts expiring through February 2013. The total amount of these commitments is approximately $191.2 million, of which approximately $85.0 million is committed in 2008, $83.7 million is committed in 2009, $14.5 million is committed in 2010, $4.5 million is committed in 2011 and $3.5 million is committed in 2012.

Technology Assets

The Company has commitments totaling approximately $5.1 million to purchase store technology assets for its stores during 2008.

Letters of Credit

In March 2001, the Company entered into a Letter of Credit Reimbursement and Security Agreement. The agreement provides $125.0 million for letters of credit. In December 2004, the Company entered into an additional Letter of Credit Reimbursement and Security Agreement, which provides $50.0 million for letters of credit. Letters of credit under both of these agreements are generally issued for the routine purchase of imported merchandise and approximately $88.9 million was committed to these letters of credit at February 2, 2008.

The Company also has approximately $17.3 million in stand-by letters of credit that serve as collateral for its self-insurance programs and expire in fiscal 2008.

Surety Bonds

The Company has issued various surety bonds that primarily serve as collateral for utility payments at the Company's stores. The total amount of the commitment is approximately $2.5 million, which is committed through various dates through fiscal 2009.

Contingencies

In 2003, the Company was served with a lawsuit in a California state court by a former employee who alleged that employees did not properly receive sufficient meal breaks and paid rest periods, along with other alleged wage and hour violations. The suit requested that the Court certify the case as a class action. The parties engaged in mediation and reached an agreement which upon presentation to the Court, received preliminary approval and the certification of a settlement class. Notices have been mailed to the class members and the final fairness hearing is expected to occur on May 22, 2008. The settlement amount has been accrued in the accompanying consolidated balance sheet as of February 2, 2008.

In 2005, the Company was served with a lawsuit by former employees in Oregon who allege that they did not properly receive sufficient meal breaks and paid rest periods, and that terminated employees were not paid in a timely manner. The plaintiffs requested

the Court to certify classes for their various claims and the presiding judge did so with respect to two classes, but denied others. After a partly successful appeal by the plaintiffs, one additional class has been certified. The certified classes now include two for alleged violations of that state's labor laws concerning rest breaks and one related to untimely payments upon termination. Discovery is now on-going and no trial is anticipated before the latter part of 2008.

In 2006, the Company was served with a lawsuit by a former employee in a California state court alleging that she was paid for wages with a check drawn on a bank which did not have any branches in the state, an alleged violation of the state's labor code; that she was paid less for her work than other similar employees with the same job title based on her gender; and that she was not paid her final wages in a timely manner, also an alleged violation of the labor code. The plaintiff requested the Court to certify the case and those claims as a class action. The parties have reached a settlement and executed an Agreement by which the named plaintiff individually settled her Equal Pay Act and late payment claims. The Court accepted the proposed settlement and certified a class for the check claim. Notices have been mailed to class members and a hearing for final approval of the settlement has been scheduled for April 22, 2008. The estimated settlement amount has been accrued in the accompanying consolidated balance sheet as of February 2, 2008.

In 2006, the Company was served with a lawsuit filed in federal court in the state of Alabama by a former store manager. She claims that she should have been classified as a non-exempt employee under the Fair Labor Standards Act and, therefore, should have received overtime compensation and other benefits. She filed the case as a collective action on behalf of herself and all other employees (store managers) similarly situated. Plaintiff sought and received from the Court an Order allowing nationwide (except for the state of California) notice to be sent to all store managers employed by the Company now or within the past three years. Such notice has been mailed and each involved person will determine whether he or she wishes to opt-in to the class as a plaintiff. The Company intends at the appropriate time to challenge the anticipated effort by the opt-in plaintiffs to be certified as a class.

In 2007, the Company was served with a lawsuit filed in federal court in the state of California by one present and one former store manager. They claim they should have been classified as non-exempt employees under both the California Labor Code and the Fair Labor Standards Act. They filed the case as a class action on behalf of California based store managers. The Company responded with a motion to dismiss which the Court granted with respect to allegations of fraud. The plaintiff then filed an amended complaint which has been answered by us. The Company was thereafter served with a second suit in a California state court which alleges essentially the same claims as those contained in the federal action and which likewise seeks class certification of all California store managers. The Company has removed the case to the same federal court as the first suit, answered it and the two cases have been consolidated. The Company will defend the plaintiffs' anticipated effort to seek class certification.

In 2007, the Company was served with a lawsuit filed in federal court in California by two former employees who allege they were not paid all wages due and owing for time worked, that they were not paid in a timely manner upon termination of their employment and that they did not receive accurate itemized wage statements. They filed the suit as a class action and seek to include in the class all of the Company's former employees in the state of California. The Company responded with a motion to dismiss which the Court denied. The Company answered and a motion for summary judgment on the part of the Company is presently pending before the Court.

The Company was recently served in federal court in California with a Complaint, on behalf of a former employee, alleging meal and rest break violations among other causes of action, and seeking class action status. The settlement Order entered by the Court in the 2003 case referenced above included an injunction against meal and rest break claims on the part of class members which the Company believe include this plaintiff. The Company will seek to stay this litigation in accordance with that injunction.

The Company will vigorously defend itself in these lawsuits. The Company does not believe that any of these matters will, individually or in the aggregate, have a material adverse effect on its business or financial condition. The Company cannot give assurance, however, that one or more of these lawsuits will not have a material adverse effect on its results of operations for the period in which they are resolved.

NOTE 5 – LONG-TERM DEBT

Long-term debt at February 2, 2008 and February 3, 2007 consists of the following:

(in millions)	**February 2, 2008**	February 3, 2007
$450.0 million Unsecured Revolving Credit Facility, interest payable monthly at LIBOR,plus 0.475%, which was 4.47% at February 2, 2008, principal payable upon expiration of the facility in March 2009	**$250.0**	$250.0
Demand Revenue Bonds, interest payable monthly at a variable rate which was 3.38% at February 2, 2008, principal payable on demand, maturing June 2018	**18.5**	18.8
Total long-term debt	**268.5**	268.8
Less current portion	**18.5**	18.8
Long-term debt, excluding current portion	**$250.0**	$250.0

Maturities of long-term debt are as follows: 2008 - $18.5 million and 2009 - $250.0 million.

Unsecured Revolving Credit Facility

In March 2004, the Company entered into a five-year Unsecured Revolving Credit Facility (the Facility). The Facility provides for a $450.0 million revolving line of credit, including up to $50.0 million in available letters of credit, bearing interest at LIBOR, plus 0.475%. The Facility also bears an annual facilities fee, calculated as a percentage, as defined, of the amount available under the line of credit and an annual administrative fee payable quarterly. The Facility, 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.

Demand Revenue Bonds

On May 20, 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 do not contain a prepayment penalty as long as the interest rate remains variable. The Bonds contain a demand provision and, therefore, are classified as current liabilities.

Credit Agreement

On February 20, 2008, the Company entered into a five-year $550.0 million Credit Agreement (the Agreement). The Agreement provides for a $300.0 million revolving line of credit, including up to $150.0 million in available letters of credit, and a $250.0 million term loan. The interest rate on the facility will be 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 term loan is due and payable in full at the five year maturity date of the Agreement. The Agreement also bears an administrative fee payable annually. 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. The Company's March 2004, $450.0 million unsecured revolving credit facility was terminated concurrent with entering into the Agreement.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

Non-Hedging Derivatives

At February 2, 2008, the Company was party to a derivative instrument in the form of an interest rate swap that does not qualify for hedge accounting treatment pursuant to the provisions of SFAS No. 133 because it contains a knock-out provision. The swap creates the economic equivalent of a fixed rate obligation by converting the variable-interest rate to a fixed rate. Under this interest rate swap, the Company pays interest to a financial institution at a fixed rate, as defined in the agreement. In exchange, the financial institution pays the Company at a variable interest rate, which approximates the floating rate on the variable-rate obligation, excluding the credit spread. The interest rate on the swap is subject to adjustment monthly. No payments are made by either party for months in which the variable-interest rate, as calculated under the swap agreement, is greater than the "knock-out rate." The following table summarizes the terms of the interest rate swap:

Derivative Instrument	Origination Date	Expiration Date	Pay Fixed Rate	Knock-out Rate
$18.5 million swap	4/1/99	4/1/09	4.88%	7.75%

This swap reduces the Company's exposure to the variable interest rate related to the Demand Revenue Bonds (see Note 5).

On March 20, 2008, the Company entered into two $75.0 million interest rate swap agreements. These interest rate swaps are used to manage the risk associated with interest rate fluctuations on a portion of the Company's $250.0 million variable rate term note. Under these agreements, the Company pays interest to financial institutions at a fixed rate of 2.8%. In exchange, the financial institutions pay the Company at a variable rate, which approximates the variable rate on the debt, excluding the credit spread. The Company believes these swaps are highly effective as the interest reset dates and the underlying interest rate indices are identical for the swaps and the debt. These swaps qualify for hedge accounting treatment pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and expire in March 2011.

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 February 2, 2008 and February 3, 2007.

Net Income Per Share

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

(in millions, except per share data)	**Year Ended February 2, 2008**	Year Ended February 3, 2007	Year Ended January 28, 2006
Basic net income per share:			
Net income	**$201.3**	$192.0	$173.9
Weighted average number of shares outstanding	**95.9**	103.2	108.3
Basic net income per share	**$2.10**	$1.86	$1.61
Diluted net income per share:			
Net income	**$201.3**	$192.0	$173.9
Weighted average number of shares outstanding	**95.9**	103.2	108.3
Dilutive effect of stock options and restricted stock (as determined by applying the treasury stock method)	**0.5**	0.6	0.4
Weighted average number of shares and dilutive potential shares outstanding	**96.4**	103.8	108.7
Diluted net income per share	**$ 2.09**	$ 1.85	$ 1.60

At February 2, 2008, February 3, 2007, and January 28, 2006, respectively, 0.4 million, 1.5 million, and 3.4 million stock options are not included in the calculation of the weighted average number of shares and dilutive potential shares outstanding because their effect would be anti-dilutive.

Share Repurchase Programs

In December 2006, the Company entered into two agreements with a third party to repurchase approximately $100.0 million of the Company's common shares under an Accelerated Share Repurchase Agreement.

The first $50.0 million was executed in an "uncollared" agreement. In this transaction the Company initially received 1.7 million shares based on the market price of the Company's stock of $30.19 as of the trade date (December 8, 2006). A weighted average price of $32.17 was calculated using stock prices from December 16, 2006 – March 8, 2007. This represented the calculation period for the weighted average price. Based on this weighted average price, the Company paid the third party an additional $3.3 million on March 8, 2007 for the 1.7 million shares delivered under this agreement.

The remaining $50.0 million was executed under a "collared" agreement. Under this agreement, the Company initially received 1.5 million shares through December 15, 2006, 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 number of shares received under the agreement was determined based on the weighted average market price of the Company's common stock, net of a predetermined discount, during the time after the initial execution date through March 8, 2007. The calculated weighted average market price through March 8, 2007, net of a predetermined discount, as defined in the "collared" agreement, was $31.97. Therefore, on March 8, 2007, the Company received an additional 0.1 million shares under the "collared" agreement resulting in 1.6 million total shares being repurchased under this agreement.

On March 29, 2007, the Company entered into an agreement with a third party to repurchase $150.0 million of the Company's common shares under an Accelerated Share Repurchase Agreement. The entire $150.0 million was executed under a "collared" agreement. Under this agreement, the Company initially received 3.6 million shares through April 12, 2007, representing the minimum number of shares to be received based on a calculation using the "cap" or high-end of the price range of the collar. The maximum number of shares that could have been received under the agreement was 4.1 million. The number of shares was determined based on the weighted average market price of the Company's common stock during the four months after the initial execution date. The calculated weighted average market price through July 30, 2007, net of a predetermined discount, as defined in the "collared" agreement, was $40.78. Therefore, on July 30, 2007, the Company received an additional 0.1 million shares under the "collared" agreement resulting in 3.7 million total shares being repurchased under this agreement.

On August 30, 2007, the Company entered into an agreement with a third party to repurchase $100.0 million of the Company's common shares under an Accelerated Share Repurchase Agreement. The entire $100.0 million was executed under a "collared" agreement. Under this agreement, the Company initially received 2.1 million shares through September 10, 2007, 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 number of shares received under the agreement was determined based on the weighted average market price of the Company's common stock, net of a predetermined discount, during the time after the initial execution date through a period of up to four and one half months. The contract terminated on October 22, 2007 and the weighted average price through that date was $41.16. Therefore, on October 22, 2007, the Company received an additional 0.3 million shares resulting in 2.4 million total shares repurchased under this agreement.

In March 2005, the Company's Board of Directors authorized the repurchase of up to $300.0 million of the Company's common stock through March 2008. In November 2006, the Company's Board of Directors authorized the repurchase of up to $500.0 million of the Company's common stock. This amount was in addition to the $27.0 million remaining on the March 2005 authorization. In October 2007, the Company's Board of Directors authorized the repurchase of an additional $500.0 million of the Company's common stock. This authorization was in addition to the November 2006 authorization which had approximately $98.4 million remaining.

The Company repurchased approximately 12.8 million shares for approximately $473.0 million in fiscal 2007, approximately 8.8 million shares for approximately $248.2 million in fiscal 2006 and approximately 7.0 million shares for approximately $180.4 million in fiscal 2005. At February 2, 2008, the Company had approximately $453.7 million remaining under Board 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 the accompanying consolidated statements of operations were as follows:

Year Ended February 2, 2008	**$19.0 million**
Year Ended February 3, 2007	16.8 million
Year Ended January 28, 2006	6.9 million

Eligible employees hired prior to January 1, 2007 are immediately vested in the Company's profit sharing contributions. Eligible employees hired subsequent

to January 1, 2007 vest in the Company's profit sharing contributions based on the following schedule:

- 25% after three years of service
- 50% 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 were approximately $2.5 million and $2.3 million, respectively, at February 2, 2008 and February 3, 2007, 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 February 2, 2008, February 3, 2007 or January 28, 2006.

All of the employee benefit plans noted above were adopted by Dollar Tree, Inc. on March 2, 2008 as a part of the holding company reorganization. Refer to Note 1 for a discussion of the holding company reorganization.

NOTE 9 - STOCK-BASED COMPENSATION PLANS

At February 2, 2008, the Company has eight stock-based compensation plans. Each plan and the accounting method are described below.

Fixed Stock Option Compensation Plans

Under the Non-Qualified Stock Option Plan (SOP), the Company granted options to its employees for 1,047,264 shares of Common Stock in 1993 and 1,048,289 shares in 1994. Options granted under the SOP have an exercise price of $0.86 and are fully vested at the date of grant.

Under the 1995 Stock Incentive Plan (SIP), the Company granted options to its employees for the purchase of up to 12.6 million shares of Common Stock. The exercise price of each option equaled the market price of the Company's stock at the date of grant, unless a higher price was established by the Board of Directors, and an option's maximum term is 10 years. Options granted under the SIP generally vested over a three-year period. This plan was terminated on July 1, 2003 and replaced with the Company's 2003 Equity Incentive Plan, discussed below.

The Step Ahead Investments, Inc. Long-Term Incentive Plan (SAI Plan) provided for the issuance of stock options, stock appreciation rights, phantom stock and restricted stock awards to officers and key employees. Effective with the merger with 98 Cent Clearance Center in December 1998 and in accordance with the terms of the SAI Plan, outstanding 98 Cent Clearance Center options were assumed by the Company and converted, based on 1.6818 Company options for each 98 Cent Clearance Center option, to options to purchase the Company's common stock. Options issued as a result of this conversion were fully vested as of the date of the merger.

Under the 1998 Special Stock Option Plan (Special Plan), options to purchase 247,500 shares were granted to five former officers of 98 Cent Clearance Center who were serving as employees or consultants of the Company following the merger. The options were granted as consideration for entering into non-competition agreements and a consulting agreement. The exercise price of each option equals the market price of the Company's stock at the date of grant, and the options' maximum term is 10 years. Options granted under the Special Plan vested over a five-year period. As of February 2, 2008, 135,250 of these options are still outstanding.

The 2003 Equity Incentive Plan (EIP) replaces the Company's SIP discussed above. Under the EIP, the Company may grant up to 6.0 million shares of its Common Stock, plus any shares available for future awards under the SIP, to the Company's employees, including executive officers and independent contractors. The EIP permits 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 equals the market price of the Company's stock at the date of grant. The options generally vest over a three-year period and have a maximum term of 10 years.

The 2004 Executive Officer Equity Plan (EOEP) is available only to the Chief Executive Officer and

certain other executive officers. These officers no longer receive awards under the EIP. The EOEP allows the Company to grant the same type of equity awards as does the EIP. These awards generally vest over a three-year period, with a maximum term of 10 years.

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) provides non-qualified stock options to non-employee members of the Company's Board of Directors. The stock options are functionally equivalent to such options issued under the EIP discussed above. The exercise price of each stock option granted equals the market price of the Company's stock at the date of grant. The options generally vest immediately.

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 to 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 current market price of a share of the Company's common stock. 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.

All of the shareholder approved plans noted above were adopted by Dollar Tree, Inc. on March 2, 2008 as a part of the holding company reorganization. Refer to Note 1 for a discussion of the holding company reorganization.

Stock Options

In 2007 and 2006, the Company granted a total of 386,490 and 342,216 stock options from the EIP, EOEP and the NEDP, respectively. The fair value of all of these options is being expensed ratably over the three-year vesting periods, or a shorter period based on the retirement eligibility of the grantee. For these options, the fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model. All options granted to directors vest immediately and are expensed on the grant date. During 2007 and 2006, the Company recognized $2.7 million and $1.3 million, respectively of expense related to stock option grants. As of February 2, 2008, there was approximately $4.3 million of total unrecognized compensation expense related to these stock options which is expected to be recognized over a weighted average period of 23 months. The expected term of the awards granted was calculated using the "simplified method" in accordance with Staff Accounting Bulletin No. 107. Expected volatility is derived from an analysis of the historical and implied volatility of the Company's publicly traded stock. The risk free rate is based on the U.S. Treasury rates on the grant date with maturity dates approximating the expected life of the option on the grant date. For pro forma disclosures required under FAS 123, the fair value of option awards in 2005 were also calculated using the Black-Scholes option-pricing model. The weighted average assumptions used in the Black-Scholes option-pricing model for grants in 2007, 2006 and 2005 are as follows:

	Fiscal 2007	Fiscal 2006	Fiscal 2005
Expected term in years	**6.0**	6.0	4.7
Expected volatility	**28.4%**	30.2%	48.7%
Annual dividend yield	**—**	—	—
Risk free interest rate	**4.5%**	4.8%	3.7%
Weighted average fair value of options granted during the period	**$14.33**	$10.93	$11.27
Options granted	**386,490**	342,216	320,220

The following tables summarize the Company's various option plans and information about options outstanding at February 2, 2008 and changes during the year then ended.

Stock Option Activity

	February 2, 2008			
	Shares	**Weighted Average Per Share Exercise Price**	**Weighted Average Remaining Term**	**Aggregate Intrinsic Value (in millions)**
Outstanding, beginning of period	4,466,041	$25.96		
Granted	386,490	38.17		
Exercised	(2,674,857)	25.46		
Forfeited	(87,760)	31.00		
Outstanding, end of period	2,089,914	$28.63	5.5	$ —
Options vested and expected to vest at February 2, 2008	2,061,008	$28.58	5.5	$ —
Options exercisable at end of period	1,557,234	$26.71	4.4	$1.7

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding at February 2, 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at February 2, 2008	Weighted Average Exercise Price
$0.86	3,072	N/A	$0.86	3,072	$0.86
$10.99 to $21.28	307,534	4.3	19.43	307,534	19.43
$21.29 to $29.79	935,616	5.3	25.83	736,436	25.35
$29.80 to $42.56	843,692	6.1	35.20	510,192	33.21
$0.86 to $42.56	2,089,914	5.5	28.63	1,557,234	26.71

The intrinsic value of options exercised during 2007, 2006 and 2005 was approximately $32.8 million, $13.1 million and $2.8 million, respectively.

Restricted Stock

The Company granted 323,320, 277,347 and 252,936 RSUs, net of forfeitures in 2007, 2006 and 2005, respectively, from the EIP and the EOEP 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 a shorter period based on the retirement eligibility of the grantee. The fair value was determined using the Company's closing stock price on the date of grant. The Company recognized $7.7 million, $4.5 million and $1.7 million of expense related to these RSUs during 2007, 2006 and 2005. As of February 2, 2008, there was approximately $11.8 million of total unrecognized compensation expense related to these RSUs which is expected to be recognized over a weighted average period of 22 months.

In 2005, the Company granted 40,000 RSUs from the EOEP to certain officers of the Company, contingent on the Company meeting certain performance targets in 2005 and future service of these officers through various points through July 2007. The Company met these performance targets in fiscal 2005; therefore, the fair value of these RSUs of $1.0 million was expensed over the service period. The fair value of these RSUs was determined using the Company's closing stock price January 28, 2006 (the last day of fiscal 2005), when the performance targets were satisfied. The Company recognized $0.3 million and $0.7 million, of expense related to these RSUs in 2006 and 2005, respectively. The amount recognized in 2007 was less than $0.1 million.

In 2006, the Company granted 6,000 RSUs from the EOEP and the EIP to certain officers of the Company, contingent on the Company meeting certain performance targets in 2006 and future service of the these officers through fiscal 2006. The Company met these performance targets in fiscal 2006; therefore, the Company recognized the fair value of these RSUs of $0.2 million during fiscal 2006. The fair value of these RSUs was determined using the Company's closing stock price on the grant date in accordance with SFAS 123R.

The following table summarizes the status of RSUs as of February 2, 2008, and changes during the year then ended:

	Shares	**Weighted Average Grant Date Fair Value**
Nonvested at February 3, 2007	456,777	$26.57
Granted	350,470	38.12
Vested	(206,076)	26.60
Forfeited	(45,236)	32.96
Nonvested at February 2, 2008	555,935	26.57

In connection with the vesting of RSUs in 2007 and 2006, certain employees elected to receive shares net of minimum statutory tax withholding amounts which totaled $2.9 million and $1.0 million, respectively. The total fair value of the restricted shares vested during the years ended February 2, 2008 and February 3, 2007 was $8.2 million and $2.8 million, respectively. The total fair value of restricted shares vested during the year ended January 28, 2006 was less than $0.1 million.

Employee Stock Purchase Plan

Under the Dollar Tree, Inc. Employee Stock Purchase Plan (ESPP), the Company is authorized to issue up to 1,759,375 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 1,074,420 shares as of February 2, 2008.

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 2007	Fiscal 2006	Fiscal 2005
Expected term	**3 months**	3 months	3 months
Expected volatility	**16.3%**	13.1%	12.0%
Annual dividend yield	**—**	—	—
Risk free interest rate	**4.4%**	4.8%	3.9%

The weighted average per share fair value of those purchase rights granted in 2007, 2006 and 2005 was $5.74, $4.59 and $4.11, respectively. Total expense recognized for these purchase rights was $0.9 million and $0.4 million in 2007 and 2006, respectively.

On March 2, 2008, the ESPP was adopted by Dollar Tree, Inc. as a part of the holding company reorganization. Refer to Note 1 for discussion of the holding company reorganization.

NOTE 10 – ACQUISITION

On March 25, 2006, the Company completed its acquisition of 138 Deal$ stores. These stores are located primarily in the Midwest part of the United States and the Company has existing logistics capacity to service these stores. This acquisition also includes a few "combo" stores that offer an expanded assortment of merchandise including items that sell for more than $1. Substantially all Deal$ stores acquired will continue to operate under the Deal$ banner while providing the Company an opportunity to leverage its Dollar Tree infrastructure in the testing of new merchandise concepts, including higher price points, without disrupting the single-price point model in its Dollar Tree stores.

The Company paid approximately $32.0 million for store-related and other assets and $22.1 million for inventory. This amount includes approximately $0.6 million of direct costs associated with the acquisition. The results of Deal$ store operations are included in the Company's financial statements since the acquisition date and did not have a significant impact on the Company's operating results in 2006. This acquisition is immaterial to the Company's operations as a whole and therefore no proforma disclosure of financial information has been presented. The following table summarizes the allocation of the purchase price to the fair value of the assets acquired.

(in millions)	
Inventory	$22.1
Other current assets	0.1
Property and equipment	15.1
Goodwill	14.6
Other intangibles	2.2
	$54.1

The goodwill resulting from this acquisition will not be amortized but will be tested annually for impairment. Included in other intangibles is approximately $2.1 million related to net favorable lease rights for operating leases for retail locations. This amount is being amortized on a straight-line basis to rent expense over 35 months, the weighted average remaining initial lease term of the locations purchased.

NOTE 11 – INVESTMENT

The Company has a $4.0 million investment which represents a 10.5% fully diluted interest in Ollie's Holdings, Inc. (Ollie's), a multi-price point discount retailer located in the mid-Atlantic region. In addition, the SKM Equity Fund III, L.P. (SKM Equity) and SKM Investment Fund (SKM Investment) acquired a combined fully diluted interest in Ollie's of 53.1%. One of the Company's current directors, Thomas Saunders and one former director, John Megrue, are principal members of SKM Partners, L.L.C., which serves as the general partner of SKM Equity. John Megrue is also a principal member of Apax Partners, L.P., which serves as the general partner for SKM Investment. John Megrue did not stand for re-election to the Company's Board of Directors in June 2007. The $4.0 million investment in Ollie's is accounted for under the cost method and is included in "other assets" in the accompanying consolidated balance sheets.

NOTE 12 – QUARTERLY FINANCIAL INFORMATION (Unaudited)

The following table sets forth certain items from the Company's unaudited consolidated statements of operations for each quarter of fiscal year 2007 and 2006. 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.

	First Quarter(1)	Second Quarter	Third Quarter	Fourth Quarter(2)
Fiscal 2007:				
Net sales	**$ 975.0**	**$ 971.2**	**$ 997.8**	**$ 1,298.6**
Gross profit	**$ 325.3**	**$ 326.6**	**$ 343.9**	**$ 465.3**
Operating income	**$ 62.3**	**$ 53.4**	**$ 60.2**	**$ 154.4**
Net income	**$ 38.1**	**$ 32.6**	**$ 35.9**	**$ 94.7**
Diluted net income per share	**$ 0.38**	**$ 0.33**	**$ 0.38**	**$ 1.04**
Stores open at end of quarter	**3,280**	**3,334**	**3,401**	**3,411**
Comparable store net sales change	**5.8%**	**4.4%**	**1.9%**	**(0.8%)**
Fiscal 2006:				
Net sales	$856.5	$883.6	$910.4	$1,318.9
Gross profit	$286.1	$293.3	$307.5	$ 470.3
Operating income	$ 53.5	$ 48.2	$ 53.5	$ 155.6
Net income	$ 32.9	$ 29.0	$ 32.5	$ 97.6
Diluted net income per share	$ 0.31	$ 0.28	$ 0.32	$ 0.96
Stores open at end of quarter	3,119	3,156	3,192	3,219
Comparable store net sales change	4.0%	4.2%	4.0%	5.5%

(1) Easter was observed on April 8, 2007 and April 16, 2006.

(2) Fiscal 2007 contains 13 weeks ended February 2, 2008 while Fiscal 2006 contains 14 weeks ended February 3, 2007.

BOARD OF DIRECTORS

Macon F. Brock, Jr., *Chairman*
Arnold S. Barron
Mary Anne Citrino
H. Ray Compton
Richard G. Lesser
Lemuel E. Lewis
J. Douglas Perry, *Chairman Emeritus*
Bob Sasser
Thomas A. Saunders, III
Eileen R. Scott
Thomas E. Whiddon
Alan L. Wurtzel
Carl P. Zeithaml

OFFICERS

Bob Sasser,
President and Chief Executive Officer

James E. Fothergill,
Chief People Officer

Allan Goldman,
Senior Vice President, Deal$ Stores

James A. Gorry, III,
General Counsel and Corporate Secretary

Raymond K. Hamilton,
Chief Information Officer

David E. Hensley,
Senior Vice President, Store Operations

Gary M. Philbin,
Chief Operating Officer

Robert H. Rudman,
Chief Merchandising Officer

Stephen W. White,
Chief Logistics Officer

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STOCK LISTING

Dollar Tree's common stock has been traded on the NASDAQ Stock Market under the symbol "DLTR" since our initial public offering on March 6, 1995.

The following table gives the high and low sales prices of our common stock for the fiscal years 2007 and 2006.

STOCK PRICE

	HIGH	LOW
2007		
First Quarter	$40.31	$31.24
Second Quarter	45.98	37.93
Third Quarter	44.13	33.69
Fourth Quarter	36.17	20.72
2006		
First Quarter	$28.68	$24.34
Second Quarter	27.89	23.90
Third Quarter	32.00	25.62
Fourth Quarter	32.78	29.34

ANNUAL MEETING

You are cordially invited to attend our Annual Meeting of Shareholders, which will be held at 10:00 a.m. on Thursday, June 19, 2008, at the Princess Anne Country Club, Virginia Beach, VA.

FISCAL 2008 EARNINGS RELEASE CALENDAR*

First quarter: May 28
Second quarter: August 27
Third quarter: November 25
Fourth quarter: February 25, 2009

** Dates are subject to change.*

INVESTORS' INQUIRIES

Requests for interim and annual reports, Forms 10-K, or more information should be directed to:

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