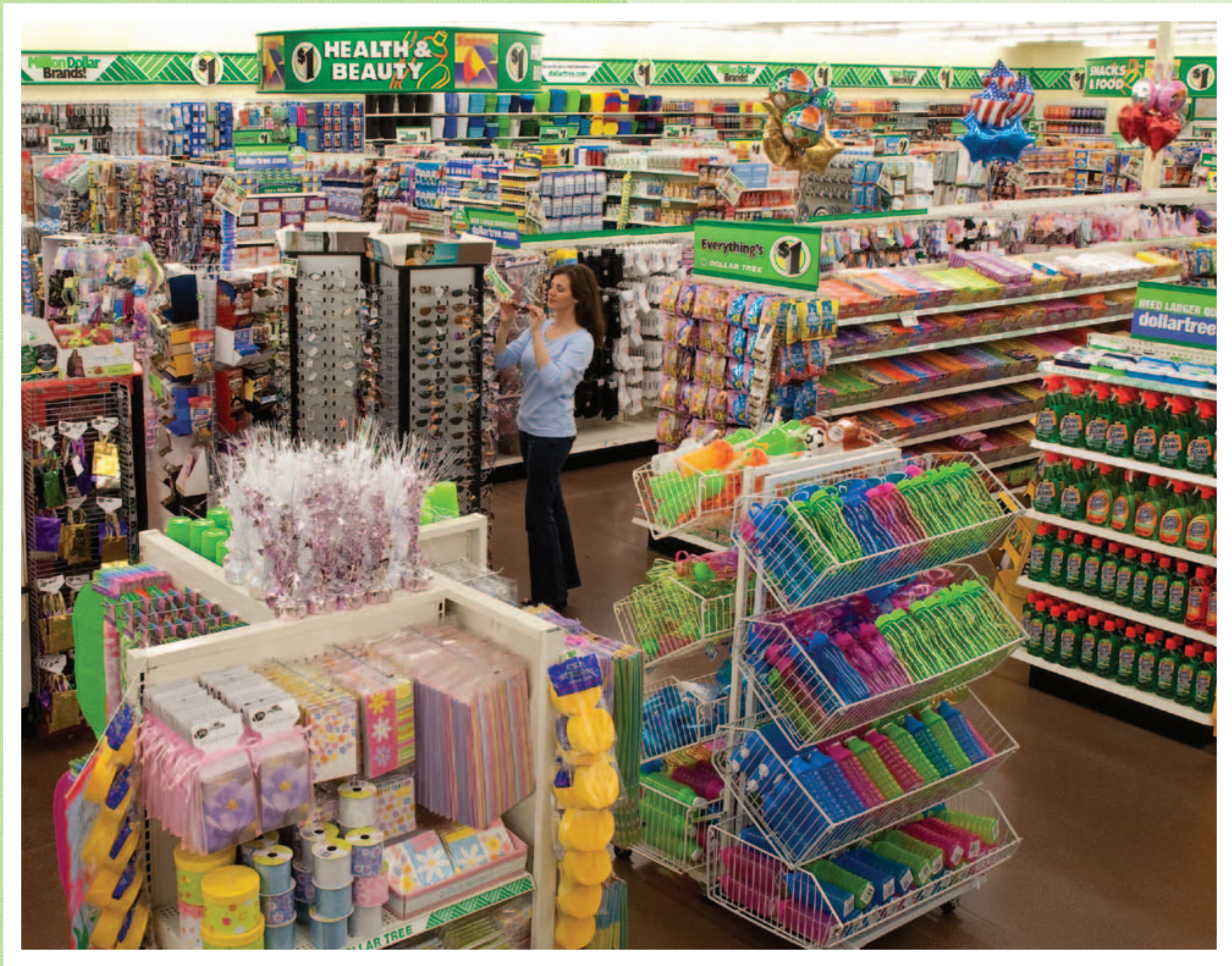
THE REAL ONE.

2009 Annual Report



About the Company

Dollar Tree, Inc. is the World's leading operator of $1 price-point variety stores. The Company also offers value merchandise at prices above $1 at its 157 Deal$ stores.

Since our first store opened in 1986, Dollar Tree has focused on providing surprising, unexpected value on an ever-changing assortment of merchandise in a bright, fun, friendly and convenient shopping environment.

Dollar Tree operates more than 3,800 stores, which are located across the 48 contiguous United States, supported by a nationwide logistics network and over 50,000 associates. The Company is the destination for value for millions of shoppers from coast to coast every day.

Dollar Tree is a Fortune 500 company headquartered in Chesapeake, Virginia. The Company continues to grow, reaching additional customers via the Internet at www.dollartree.com.

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Financial Highlights

(in millions, except store and per share data)	**2009**	2008	2007	2006[a]	2005
Net Sales	**$ 5,231.2**	$ 4,644.9	$ 4,242.6	$ 3,969.4	$ 3,393.9
Gross Profit	**1,856.8**	1,592.2	1,461.1	1,357.2	1,172.4
Operating Income	**512.8**	365.8	330.3	310.8	283.9
Net Income	**320.5**	229.5	201.3	192.0	173.9
Diluted Net Income Per Share	**3.56**	2.53	2.09	1.85	1.60
Working Capital	**$ 829.7**	$ 663.3	$ 382.9	$ 575.7	$ 648.2
Total Assets	**2,289.7**	2,035.7	1,787.7	1,882.2	1,798.4
Total Debt	**267.8**	268.2	269.4	269.5	269.9
Shareholders' Equity	**1,429.2**	1,253.2	988.4	1,167.7	1,172.3
Number of Stores Open	**3,806**	3,591	3,411	3,219	2,914
Total Selling Square Footage	**32.3**	30.3	28.4	26.3	23.0
Comparable Store Net Sales Increase/(Decrease)[b]	**7.2%**	4.1%	2.7%	4.6%	(0.8%)
Average Net Sales Per Store[b]	**$ 1.4**	$ 1.3	$ 1.3	$ 1.3	$ 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.

To Our Shareholders

Bob Sasser
President and Chief Executive Officer

At the close of 2009, considering every element of our business, five words come readily to mind and fall comfortably upon the page... *Wow! What a great year!* It was a year of great accomplishments, in many ways our best year ever. We continued to prove that our model is relevant in all economic times—good and bad—by thrilling our customers with unbelievable values on both what they need and what they want.

Several milestones were met and exceeded.

- Sales surpassed $5 billion dollars – and I am proud to state that we are the one and only Fortune 500 Company to have achieved this milestone largely "a dollar at a time." Today, as in each of the 24 years since our founding in 1986, everything at our Dollar Tree stores is priced at $1 – or less – every day.
- Our inventory productivity increased to record levels. Our stores have seen the benefit of this with less merchandise in the backroom and more efficient store operations.
- Our diluted earnings per share increased 40.7% on top of a terrific year in 2008. Our operating margin grew by 190 basis points and remains among the highest in value retailing.
- We expanded selling square footage by 6.6% in 2009, opening 240 new stores and providing new jobs and growth opportunities for our associates. Stores opened earlier in the year and more productively with new store sales exceeding plan. Our new store productivity was the highest in years.

Our customer traffic increased throughout the year. New shoppers are finding us every day and I believe we can keep them coming back by remaining true to our goals, exceeding their expectations with surprising merchandise value and running stores that "Wow" them with a fun, full and friendly place to shop.

2009 Financial Results

Total consolidated sales in 2009 were $5.23 billion, an increase of 12.6% over last year's sales of $4.64 billion. Comparable store sales increased 7.2%, on top of a 4.1% comparable store sales increase in 2008.

Our diluted earnings per share set a new record—$3.56, an increase of $1.03 or 40.7% over last year's reported $2.53, which was itself a record. Operating income grew by $147 million and operating margin increased to 9.8% of sales, compared to 7.9% in fiscal 2008—an increase of 190 bps over 2008. Our operating margin remains among the highest in the value retail sector. Net income rose 39.7% to $321 million.

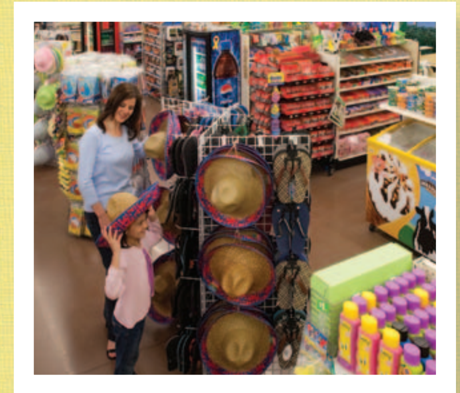
Everyone at Dollar Tree can take great pride in these results, not only because they are record-setting successes in themselves, but because they collectively speak to the underlying strength of our model, our infrastructure and our strategy. We are finding ways to better serve the customer, run better stores, operate more efficiently and successfully compete in the marketplace.

2009 Accomplishments – Built on a Strong Foundation

Our success has been no accident. It is the result of rigorous execution of a strategy that has been in place and evolving for more than a decade. We invested with foresight to right-size our stores, develop and implement Retail Technology systems that are tailored to Dollar Tree's unique business model and build a solid and scalable Logistics Infrastructure. Our store expansion has been measured, disciplined and strategic. In addition, we continuously examine and refine our store model and assortments to maximize our relevance to customers and our financial returns for shareholders. This is being translated into an increasingly efficient operation and positions the Company for continued growth. The Company has leveraged depreciation expense and increased its inventory turns for five consecutive years.

We continue to right-size our stores and add new product. We have evolved from small, mall-based locations and now open 10,000 - 12,000 sq. ft. stores in strip centers and free-standing locations. We believe this to be our optimum size

for a number of reasons. It is small enough to be convenient, but large enough to accommodate a broad assortment of merchandise, including the growing selection of needs-based product we've added in recent years. Our stores today offer a compelling mix of things customers need and want—all for just a dollar.



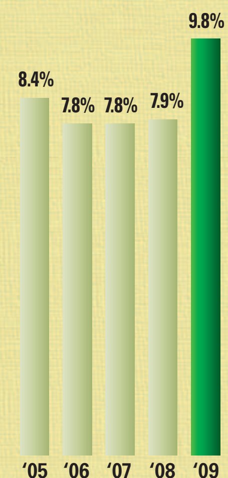
The larger-store format has also allowed for the expansion into frozen and refrigerated product. In 2009, we rolled freezers and coolers to an additional 214 stores and now have frozen and refrigerated product available in 1,291 Dollar Tree stores and 132 Deal$ stores. Our measured expansion of frozen and refrigerated product is continuing. This year we intend to roll out this product to another 225 stores or more.

All of this is driving footsteps into our stores and driving sales, including sales of our high-value, high-margin discretionary product. Evidence shows that this variety truly appeals to our customers—traffic is up, and the average transaction is on the rise.

We have developed and implemented retail technology **tailored to our unique business model**, and are now leveraging those investments.

We have developed and implemented retail technology tailored to our unique business model and are now leveraging those investments. Using point of sale data by item by store, we are making "smarter" allocations, flexing our inventory to meet increasing customer demand, improving our in-stock of basics and optimizing the flow of seasonal product to our stores, consistent with sales trends. All of this translates into a better customer experience, improved sell-through and increased inventory turns, which rose by 25 basis points to 4.06 turns in 2009.

Investments in technology have enabled us to broaden the types of payment accepted at our stores, thereby offering increased flexibility and convenience to our customers. We accept Debit cards, Visa credit, Discover credit and Electronic Benefits Transfer in all of our stores. We also accept "SNAP" – food stamps – in 75% of our stores. We intend to continue expanding food stamp acceptance to more stores in 2010.



We have built a solid and scalable logistics infrastructure to support our nationwide retail footprint. Logistics efficiency, already outstanding, continued to improve in 2009. Our logistics team found ways to save costs through greater cube utilization of our trailers and increased less-than-trailer-load consolidation. Backhauls increased more than 10%, which further reduced cost per delivery and inventory turns continued to increase in 2009 for the fifth consecutive year. Our distribution center efficiency also increased in 2009 by more than 14%. We expect continued gains in efficiency as our volume increases; in fact, every new store that we open makes our network more efficient.

In the fourth quarter 2009, we purchased a new distribution center in San Bernardino, CA, to replace a leased facility in Salt Lake City. The new DC became fully operational in April 2010. It is slightly larger than the distribution center it replaced, fully automated and will provide further increases in distribution center productivity. It is strategically located to decrease stem miles and better serve our base of existing stores while supporting new store growth in Southern California and the Southwest. The total facility cost of approximately $37 million was financed using available cash. We currently have the network capacity to support $7.5 billion in annual sales with no meaningful additional investment in infrastructure.

We continue to open new stores and increase market share. For the full year 2009, we opened 240 new stores and relocated and expanded 75 stores for a total of 315 projects. We ended the year with 3,806 stores, and the new store class of 2009 averaged approximately 10,000 square feet, similar to the class of 2008.

Our plan for 2010 includes 220 new Dollar Tree stores, 25 new Deal$ stores and 75 relocations for a total of 320 projects. Over the longer term, we believe we can operate 7,000 Dollar Tree stores across the country and the Deal$ model expands this number.

We are developing new concepts to drive future growth, including Deal$ and Dollar Tree Direct. Deal$ is our multi-price initiative. By the end of 2009 we were operating 157 Deal$ stores including 19 new Deal$ stores that were added during the year. At Deal$, not everything's $1, but everything is a value. In 2009 we continued to improve the operating metrics at Deal$, upgrading our standards to provide a more compelling customer experience. In 2009, we saw improving sales trends at our Deal$ stores, particularly in the new stores that we've opened in the past three years.

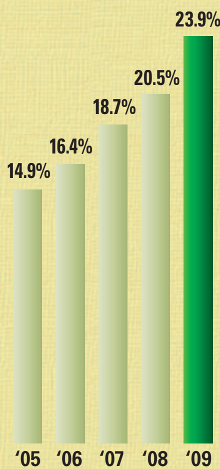
Deal$ traffic, ticket and average unit retail all increased in 2009. We are seeing positive customer response across a broad range of categories, particularly in items not available at our 3,651 Dollar Tree stores. We are offering more variety, more brands and more overall value.

Dollar Tree has a long-standing commitment to **responsible corporate governance** and to building value for our long-term shareholders.

Looking forward to 2010, we will continue to build and refine our assortment to create more merchandise excitement, increase the "Wow" factor and give our customers more reasons to shop at Deal$. We will also continue to focus our real estate strategy on rolling out new Deal$ stores in targeted locations in a measured and thoughtful way.

In the first quarter of 2009, we launched our e-commerce platform, *"Dollar Tree Direct,"* as another way to offer Dollar Tree values to more customers, including organizations, small businesses and individual customers planning events. Dollar Tree Direct is off to a great start and 2009 was only the beginning. We see major potential to grow this business. As 2010 unfolds, we will continue to expand our assortment and increase the number of items available exclusively on Dollar Tree Direct and continuously enhance the site to make it increasingly customer-friendly.

Return on Shareholders' Equity



Corporate Governance and Shareholder Value

Dollar Tree, through its Board of Directors and its executive management team, has a long-standing commitment to responsible corporate governance and to building value for our long-term shareholders. The majority of the Board is comprised of independent directors; all of the standing committees of the Board consist entirely of independent directors and we have a lead independent director. We have also added four new independent directors since July 2007.

The Board regularly reviews the Company's governance practices as well as what are considered to be the best governance practices of public corporations. Several governance changes have been implemented in recent years and in 2009 we created the new position of Vice President, Corporate Governance and Corporate Counsel. This officer now serves as the liaison with our shareholders on governance matters. We established this new position to provide a more direct channel for communications with shareholders to ensure an open dialogue on an ongoing basis and to promote increased understanding of industry standards for best practices in corporate governance as they evolve.

Above all, we believe in strict adherence to our core values of honesty, integrity and transparency in all aspects of our business. These values are reflected in the strength of our financial controls and in our relationships with customers, suppliers, associates and our shareholders.

For 2009, 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. In 2010, as I have stated in previous years, you can be assured that we will continue to operate Dollar Tree with an unwavering commitment to financial integrity and the related financial controls as a foundation for building long-term shareholder value.

Dollar Tree has consistently generated significant cash flow and has been a prudent manager of capital for the benefit of long-term shareholders. The best use of capital, in our view, is to support continued growth of the business at a sustainable pace. Beyond this, we have long believed that share repurchase is an effective use of excess free cash to create additional value for shareholders over the long-term.

In 2009, we repurchased 4.3 million shares for $193 million. In March 2010 we announced $200 million of additional repurchases under an Accelerated Share Repurchase Program, which will be completed by the end of the second quarter. Altogether, since 2003, the Company has invested approximately $1.4 billion to repurchase more than 39 million shares without increasing long-term debt.

Summary

Dollar Tree has a long history of exemplary financial performance through good times and bad. We have grown our revenues and earnings per share every year since becoming a public company in 1995 and the momentum increased in 2009 with strong growth in sales, comparable store sales and operating margin—and a 40.7% increase in diluted earnings per share.

As I look to the future, I see even more opportunity. I am excited about our business and I like how we are positioned.

We have a series of initiatives in place to drive our business to higher levels in 2010. We are focusing on "Wowing" our customers even more than we have already—creating more merchandise excitement, with an even better store experience featuring more impactful signage, greater "item of the week" emphasis, more powerful end-caps, and more frequent updates of in-store graphics and messaging.

We are expanding our emphasis on key merchandise categories like party, health and beauty care, Teachers' Corner and household chemicals, as well as food and consumables, while also refining our frozen/refrigerated assortments to drive traffic.

We are also improving our in-stock position on basic, non-food items that people need every day—like batteries, light bulbs, kitchen utensils and stationery.

My confidence in the future is also based on the solid foundation that makes it all possible—our investments in infrastructure continue to translate into better inventory management, increasingly efficient supply chain logistics, more productive stores, improved in-stock position and a crisper execution of our model.

With an eye on the future, we are investing for profitable growth: expanding our store base, enhancing our supply chain with a new distribution center and developing new retail concepts, including Deal$ and Dollar Tree Direct. These investments bring greater opportunities for our associates to grow and develop their skills, while expanding overall employment opportunities.

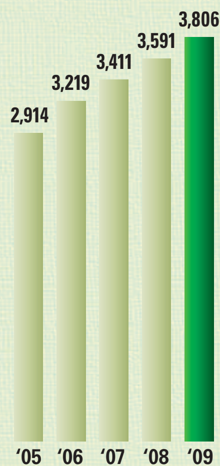
We are becoming more efficient and reducing supply chain and back-office costs. Our plan is to reinvest much of these savings into higher merchandise values and to provide a better customer experience in our stores. With our compelling mix of low-priced and high-value consumer basics and our unique assortment of fun and seasonally correct discretionary product, we are positioned to be relevant to customers in all economic circumstances.

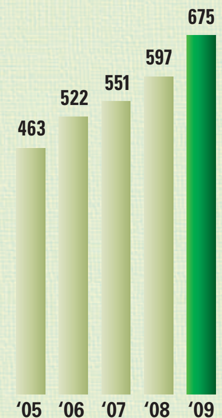
I have never been more proud of Dollar Tree, its people and their accomplishments. At the same time I have never been more excited about the future of our Company. My thanks and congratulations to every Dollar Tree associate for making 2009 our best year – *so far!*

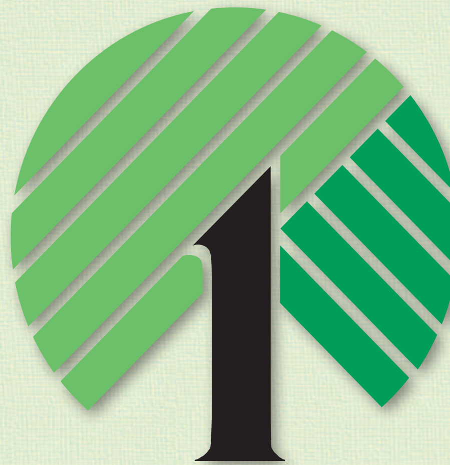
Bob Sasser
President and Chief Executive Officer

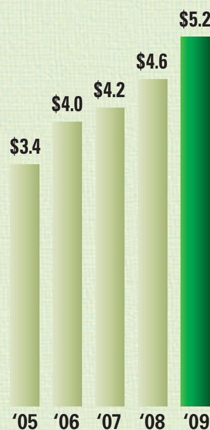
Bright, Fun, Convenient!

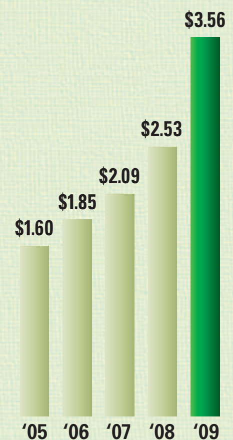
Consistent Growth











Dollar Tree proudly offers products that deliver extreme value every day, in a bright, fun, convenient shopping environment. At Dollar Tree we have what you need as well as what you want. Extreme value can be found in each aisle and every season, in an ever-changing assortment of products including health and beauty aids, household cleaning supplies, housewares, food, beverages, toys, stationery, books, electronics, seasonal merchandise and party supplies like helium balloons, gift bags and gift wrap. Dollar Tree is the one name that offers these and other items to customers coast-to-coast with each item priced at $1 – or less – every day!

Solid, Scalable Infrastructure

To Support A Nationwide Footprint

Dollar Tree has a solid and scalable infrastructure, designed to support future growth. We operate a nationwide logistics network of nine distribution centers, with a total combined square footage of 5.9 million, and an estimated network capacity of $7.5 billion. Dollar Tree shipped more than 190 million cartons to our stores in 2009.

By leveraging our 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.

Joliet, Illinois
June 2004 (1,200,000 sq. ft.)

Briar Creek, Pennsylvania
August 2001 (1,003,000 sq. ft.)

Chesapeake, Virginia
January 1998 (400,000 sq. ft.)

Olive Branch, Mississippi
January 1999 (425,000 sq. ft.)

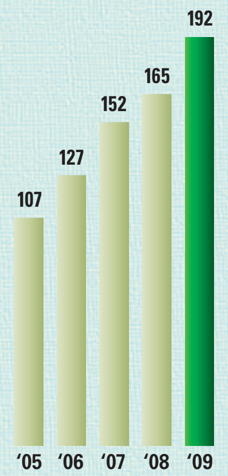
Savannah, Georgia
February 2001 (603,000 sq. ft.)

Port of Entry
(for non-U.S.-sourced products)

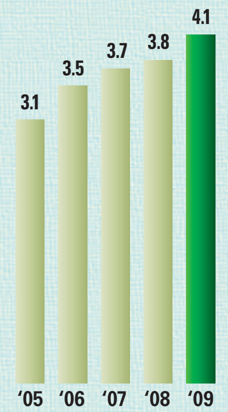
Distribution Centers
Date opened (square footage)

Shading indicates service area for each distribution center.

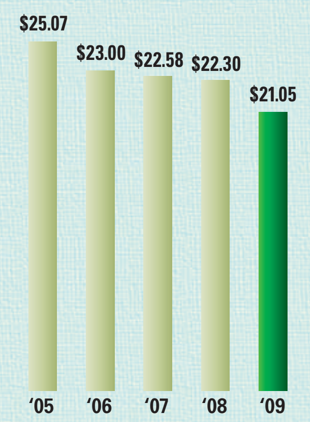
Cartons Shipped
(in millions)



Inventory Turns



Inventory Per Sq. Foot



Constant Change and Reinvention

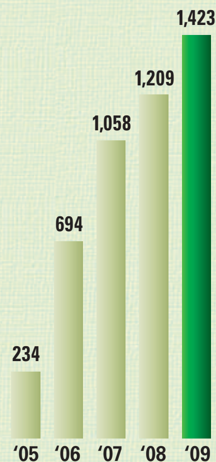
1,383 stores in 33 States. Average size: 4,825 sq. ft.

To be relevant for all times and seasons, we must constantly change and reinvent ourselves. Over the past ten years our average store size has doubled. Our assortments have expanded with new categories including frozen and refrigerated products. Tender-type acceptance has grown as Debit cards, EBT, Visa and Discover Credit cards are accepted at all of our stores, and we accept Food Stamps – or SNAP – at 75% of our stores.

Through our 157 Deal$ stores, we offer great value merchandise at prices above $1. At Deal$, not everything is $1, but everything is a value.

In 2009, Dollar Tree launched a full e-commerce website, offering extreme value merchandise for people in need of large quantities. With each single item just $1.00 and free shipping to any of our stores nationwide, dollartree.com offers Dollar Tree value and added convenience for our customers!

Stores with Freezers and Coolers



Frozen and refrigerated items are now available in over 1/3 of our locations.

3,806 stores in 48 States. Average size: 10,800 sq. ft.

Tender Types Widely Accepted

1999	2009*
	Debit Card
	EBT
	VISA
	DISCOVER NETWORK
	FOOD STAMP BENEFITS / SNAP
Cash & Checks	Cash & Checks

* SNAP/Food Stamps are accepted at 75% of our stores at fiscal 2009 year-end. All other listed tender-types are accepted at 100% of our stores.

A Foundation of Value

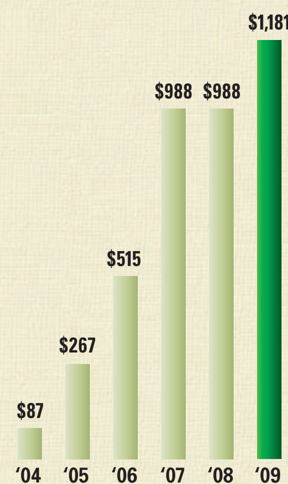
Our success is built on more than brick and mortar. It starts with our people and our core values. We are committed to a culture in which every job is important and each person is treated with respect, where every associate's contributions are valued, employment opportunities expand and where professional development is encouraged.

Each new store represents an investment in a community. Our stores are bright, clean and beautiful. They average approximately $1.4 million in annual sales, and help drive customer traffic to new and existing shopping centers with more than 175,000 customer visits each year. Our extreme value merchandise helps customers stretch their household budgets and our consistent, measured expansion has created thousands of jobs across America.

Dollar Tree also supports the communities surrounding our locations through financial contributions, associate volunteering and the generosity of our customers. Partnering with Operation Homefront, more than 15 million toys were collected nationwide over the past three years. These toys were donated by our customers and distributed at U.S. military bases across the nation.

We take our responsibility very seriously to be above reproach when making operational and financial decisions. In addition to our growth in sales and earnings, we have invested more than $1.4 billion for share repurchase since 2003, including a $200 million Accelerated Share Repurchase in early 2010. These investments demonstrate our commitment to build real value for long-term shareholders and our confidence in the future.

Cumulative Share Repurchase
(in millions)



Management's Discussion And Analysis Of Financial Condition And Results Of Operations

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

- our anticipated sales, including comparable store net sales, net sales growth and earnings growth;
- costs of pending and possible future legal claims;
- 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 2010 and beyond;
- the effect of a slight shift in merchandise mix to consumables and the increase in the number of our stores with 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 the current economic downturn, 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 import freight costs, fuel costs and wage and benefit costs;
- our gross profit margin, earnings, inventory levels and ability to leverage selling, general and administrative and other fixed costs;
- our seasonal sales patterns including those relating to the length of the holiday selling seasons and the effect of an earlier Easter in 2010;
- 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;
- our cash needs, including our ability to fund our future capital expenditures and working capital requirements;
- our expectations regarding competition and growth in our retail sector; and
- management's estimates associated with our critical accounting policies, including inventory valuation, accrued expenses, income taxes and the anticipated non-cash charge to gross profit in the first quarter of 2010.

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 March 19, 2010. Also see our "Management's Discussion and Analysis of Financial Condition and Results of Operations."

- Our profitability is vulnerable to cost increases.
- Litigation may adversely affect our business, financial condition and results of operations.
- Changes in federal, state or local law, or our failure to comply with such laws, could increase our expenses and expose us to legal risks.
- We could encounter disruptions or additional costs in obtaining and distributing merchandise.
- We may be unable to expand our square footage as profitably as planned.
- 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.
- A downturn in economic conditions could impact our sales.
- Our profitability is affected by the mix of products we sell.
- Pressure from competitors may reduce or sales and profits.
- The price of our common shares as traded on the Nasdaq Global Select Market may be volatile.
- Certain provisions in our articles of incorporation and bylaws could delay or discourage a takeover attempt that may be in a 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 do not issue detailed 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 "2010" or "fiscal 2010", "2009" or "fiscal 2009", "2008" or "fiscal 2008", and "2007" or "fiscal 2007," relate to as of or for the years ended January 29, 2011, January 30, 2010, January 31, 2009 and February 2, 2008, respectively.

Available Information

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

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 2009, 2008 and 2007;
- 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 2009 and 2008 and what we expect them to be in 2010; 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 January 30, 2010, January 31, 2009 and February 2, 2008. 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 2009 compared to the comparable fiscal year 2008 and the fiscal year 2008 compared to the comparable fiscal year 2007.

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:

- We assign cost to store inventories using the retail inventory method, determined on a weighted average cost basis. Since inception through fiscal 2009, we have used one inventory pool for this calculation. Over the years, we have invested in our retail technology systems, which has allowed us to refine our estimate of inventory cost under the retail method. On January, 31, 2010, the first day of fiscal 2010, we will use approximately 30 inventory pools in our retail inventory calculation. As a result

of this change, we will record a non-cash charge to gross profit and a corresponding reduction in inventory, at cost, of approximately $26 million in the first quarter of 2010. This is a prospective change and will not have any effect on prior periods.

- On November 2, 2009, we purchased a new distribution center in San Bernardino, California. We have spent approximately $31.0 million in capital expenditures for this new distribution center through fiscal 2009. We plan to spend an additional $6.0 million in the first quarter of 2010 to finish the project before the building starts receiving merchandise. This new distribution center will replace our Salt Lake City, Utah leased facility when its lease ends in April 2010.
- On February 20, 2008, we entered into a five-year $550.0 million unsecured 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 is based, at our option, on a LIBOR rate, plus a margin, or an alternate base rate, plus a margin.
- 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 loan.

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 January 30, 2010, we operated 3,806 stores in 48 states and the District of Columbia, with 32.3 million selling square feet compared to 3,591 stores with 30.3 million selling square feet at January 31, 2009. During fiscal 2009, we opened 240 stores, expanded 75 stores and closed 25 stores, compared to 231 new stores opened, 86 stores expanded and 51 stores closed during fiscal 2008. In the current year we increased our selling square footage by 6.6%. Of the 2.0 million selling square foot increase in 2009, 0.3 million was added by expanding existing stores. The average size of our stores opened in 2009 was approximately 8,500 selling square feet (or about 10,800 gross square feet). For 2010, we continue to plan to open stores that are approximately 8,000 - 10,000 selling square feet (or about 10,000 - 12,000 gross square feet). We believe that this store size is our optimal size operationally and that this size also gives our customers an ideal shopping environment that invites them to shop longer and buy more.

In fiscal 2009, comparable store net sales increased by 7.2%. The comparable store net sales increase was primarily the result of an increase in the number of transactions. We believe comparable store net sales continued to be positively affected by a number of our initiatives, as debit and credit card penetration continued to increase in 2009, and we continued the roll-out of frozen and refrigerated merchandise to more of our stores. At January 30, 2010 we had frozen and refrigerated merchandise in approximately 1,400 stores compared to approximately 1,200 stores at January 31, 2009. We believe that the addition of frozen and refrigerated product enables us to increase sales and earnings by increasing the number of shopping trips made by our customers. In addition, we accept food stamps (under the Supplemental Nutrition Assistance Program ("SNAP")) in approximately 2,900 qualified stores compared to 2,200 at the end of 2008.

With the pressures of the current economic environment, we have seen increases in the demand for basic, consumable products in 2009. As a result, we have shifted the mix of inventory carried in our stores to more consumer product merchandise which we believe increases the traffic in our stores and has helped to increase our sales even during the current economic downturn. While this shift in mix has impacted our merchandise costs we were able to offset that impact in the current year with decreased costs for merchandise in many of our categories.

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 five years. Inventory turnover improved by approximately 25 basis points in 2009 to over 4 turns for the year. Inventory per selling square foot also decreased 5.6% at January 30, 2010 compared to January 31, 2009.

In May 2007, legislation was enacted that increased the Federal Minimum Wage. The last increase to $7.25 an hour was effective in July 2009. As a result, our wages have increased in the third quarter of 2009 and wages will continue to increase through the first half of 2010; however, we believe that we can offset the increase in payroll costs through increased productivity and continued efficiencies in product flow to our stores.

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.

Results of Operations

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

	Year Ended January 30, 2010	Year Ended January 31, 2009	Year Ended February 2, 2008
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**64.5%**	65.7%	65.6%
Gross profit	**35.5%**	34.3%	34.4%
Selling, general and administrative expenses	**25.7%**	26.4%	26.6%
Operating income	**9.8%**	7.9%	7.8%
Interest income	**0.0%**	0.0%	0.1%
Interest expense	**(0.1%)**	(0.2%)	(0.4%)
Income before income taxes	**9.7%**	7.7%	7.5%
Provision for income taxes	**(3.6%)**	(2.8%)	(2.8%)
Net income	**6.1%**	4.9%	4.7%

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Fiscal year ended January 30, 2010 compared to fiscal year ended January 31, 2009

Net Sales. Net sales increased 12.6%, or $586.3 million, in 2009 compared to 2008, resulting from a 7.2% increase in comparable store net sales and sales in our new stores. Comparable store net sales are positively affected by our expanded and relocated stores, which we include in the calculation, and, 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 January 30, 2010 and January 31, 2009.

	January 30, 2010	January 31, 2009
New stores	**240**	227
Acquired leases	**—**	4
Expanded or relocated stores	**75**	86
Closed stores	**(25)**	(51)

Of the 2.0 million selling square foot increase in 2009 approximately 0.3 million was added by expanding existing stores.

Gross profit margin increased to 35.5% in 2009 compared to 34.3% in 2008. The increase was due to the following:

- Merchandise costs, including inbound freight, decreased 80 basis points due primarily to lower fuel costs and lower ocean freight rates compared to the prior year. Improved initial mark-up in many categories during the year was partially offset by an increase in the mix of higher cost consumer product merchandise during fiscal 2009 compared to fiscal 2008.
- Outbound freight costs decreased 20 basis points in the current year due primarily to decreased fuel costs.
- Occupancy and distribution costs decreased 30 basis points in the current year resulting from the leveraging of the comparable store sales increase.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, as a percentage of net sales, decreased to 25.7% for 2009 compared to 26.4% for 2008. The decrease is primarily due to the following:

- Depreciation decreased 40 basis points primarily due to the leveraging associated with the increase in comparable store net sales in the current year.
- Store operating costs decreased 30 basis points primarily as a result of lower utility costs as a percentage of sales, due to lower rates in the current year and the leveraging from the comparable store net sales increase in 2009.

Operating Income. Due to the reasons discussed above, operating income margin was 9.8% in 2009 compared to 7.9% in 2008.

Income Taxes. Our effective tax rate was 36.9% in 2009 compared to 36.1% in 2008. The higher rate in the current year was the result of the favorable settlement of several state tax audits in 2008 and a higher blended state tax rate in 2009.

Fiscal year ended January 31, 2009 compared to fiscal year ended February 2, 2008

Net Sales. Net sales increased 9.5%, or $402.3 million, in 2008 compared to 2007, resulting from sales in our new and expanded stores and a 4.1% increase in comparable store net sales. 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 January 31, 2009 and February 2, 2008.

	January 31, 2009	February 2, 2008
New stores	**227**	208
Acquired leases	**4**	32
Expanded or relocated stores	**86**	102
Closed stores	**(51)**	(48)

Of the 1.9 million selling square foot increase in 2008 approximately 0.3 million was added by expanding existing stores.

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Gross Profit. Gross profit margin decreased to 34.3% in 2008 compared to 34.4% in 2007. The decrease was primarily due to a 30 basis point increase in merchandise cost, including inbound freight, resulting from an increase in the sales mix of higher cost consumer product merchandise and higher diesel fuel costs compared with 2007. Partially offsetting this increase was a 20 basis point decrease in shrink expense due to favorable adjustments to shrink estimates based on actual inventory results during the year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, as a percentage of net sales, decreased to 26.4% for 2008 compared to 26.6% for 2007. The decrease is primarily due to the following:

- Depreciation expense decreased 25 basis points primarily due to the leveraging associated with the comparable store net sales increase for the year.
- Payroll-related expenses decreased 10 basis points primarily as a result of lower field payroll costs as a percentage of sales, due to the leveraging from the comparable store net sales increase in 2008.
- Partially offsetting these decreases was an approximate 10 basis point increase in store operating costs due to increases in repairs and maintenance and utility costs in the current year.

Operating Income. Due to the reasons discussed above, operating income margin was 7.9% in 2008 compared to 7.8% in 2007.

Income Taxes. Our effective tax rate was 36.1% in 2008 compared to 37.1% in 2007. The lower rate in 2008 reflects the recognition of certain tax benefits and a lower blended state tax rate resulting from the settlement of state tax audits in 2008 which allowed us to release income tax reserves and accrue less interest expense on tax uncertainties. These benefits to the tax rate were partially offset by a reduction in tax-exempt interest income in 2008.

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.

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

The following table compares cash-flow related information for the years ended January 30, 2010, January 31, 2009, and February 2, 2008:

(in millions)	**Year Ended January 30, 2010**	Year Ended January 31, 2009	Year Ended February 2, 2008
Net cash provided by (used in):			
Operating activities	**$ 581.0**	$ 403.1	$ 367.3
Investing activities	**(212.5)**	(102.0)	(22.7)
Financing activities	**(161.3)**	22.7	(389.0)

Net cash provided by operating activities increased $177.9 million in 2009 compared to 2008 due to increased earnings before income taxes, depreciation and amortization in the current year. Also providing more cash at January 30, 2010 was better inventory management resulting in lower inventory balances per store and higher accounts payable balances due to the timing of payments and increased incentive compensation accruals.

Net cash provided by operating activities increased $35.8 million in 2008 compared to 2007 due to increased earnings before income taxes, depreciation and amortization in 2008 and lower prepaid rent amounts at the end of January 2009. February 2008 rent payments were made prior to the end of fiscal 2007 which resulted in a prepaid asset in fiscal 2007 whereas February 2009 rent was paid in fiscal 2009.

Net cash used in investing activities increased $110.5 million in the current year primarily due to short-term investment activity and increased capital expenditures in 2009. In 2008 we liquidated our short-term investments due to market conditions. The net proceeds from this liquidation of $40.5 million were put into cash equivalent money market accounts. In 2009 we also purchased $27.8 million of short-term investments late in the year. Capital expenditures increased $33.5 million in 2009 primarily due to the purchase of our new distribution center in San Bernardino, CA. We have spent approximately $31.0 million on this project through the end of fiscal 2009 and expect to spend approximately $6.0 million in the first quarter of 2010 to complete the project.

Net cash used in investing activities increased $79.3 million in fiscal 2008 compared to fiscal 2007. Net proceeds from the sale of short-term investments were higher in 2007 in order to fund share repurchases. Overall, short-term investment activity decreased in 2008 resulting from the liquidation of our short-term investments early in 2008 due to market conditions. These amounts were primarily invested in cash equivalent money market accounts. Partially offsetting the decrease in net proceeds from the sales of short-term investments was higher capital expenditures ($57.7 million higher) in 2007 due to the expansions of the Briar Creek distribution center and corporate headquarters.

In 2009, net cash used in financing activities was $161.3 million as a result of share repurchases of $190.7 million partially offset by stock option exercises and employee stock plan purchases. In the prior year, net cash provided by financing activities was $22.7 million. This was the result of stock option exercises and employee stock plan purchases.

In fiscal 2008, financing activities provided cash of $22.7 million as a result of stock option exercises and employee stock plan purchases. In 2007, net cash used in financing activities was $389.0 million. This was the result of share repurchases of $473.0 million for fiscal 2007, partially offset by stock option exercises resulting from the Company's stock price in 2008 being higher than it had been in the prior several years.

At January 30, 2010, our long-term borrowings were $267.5 million and our capital lease commitments were $0.3 million. We also have $121.5 million and $50.0 million Letter of Credit Reimbursement and Security Agreements, under which approximately $101.8 million were committed to letters of credit issued for routine purchases of imported merchandise at January 30, 2010.

On February 20, 2008, we entered into a five-year $550.0 million unsecured 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 Agreement is 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. As of January 30, 2010, the $250.0 million term loan is outstanding under the Agreement and there were no amounts outstanding under the $300.0 million revolving line of credit.

We repurchased approximately 4.3 million shares for approximately $193.1 million in fiscal 2009. Less than 0.1 million of these shares totaling $2.4 million had not settled as of January 30, 2010 and these amounts have been accrued in the accompanying consolidated balance sheet as of January 30, 2010. We repurchased 12.8 million shares for approximately $473.0 million in fiscal 2007. We had no share repurchases in fiscal 2008. At January 30, 2010, we have approximately $260.6 million remaining under Board authorization.

Funding Requirements

Overview

We expect our cash needs for opening new stores and expanding existing stores in fiscal 2010 to total approximately $136.0 million, which includes capital expenditures, initial inventory and pre-opening costs. Our estimated capital expenditures for fiscal 2010 are between $155.0 and $165.0 million, including planned expenditures for our new and expanded stores and the addition of freezers and coolers to approximately 225 stores. 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.

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

The following tables summarize our material contractual obligations at January 30, 2010, including both on- and off-balance sheet arrangements, and our commitments, including interest on long-term borrowings (in millions):

Contractual Obligations	Total	2010	2011	2012	2013	2014	Thereafter
Lease Financing							
Operating lease obligations	$ 1,518.7	$ 372.8	$ 326.9	$ 269.3	$ 202.7	$ 140.2	$ 206.8
Capital lease obligations	0.3	0.1	0.1	0.1	—	—	—
Long-term Borrowings							
Credit Agreement	250.0	—	—	—	250.0	—	—
Revenue bond financing	17.5	17.5	—	—	—	—	—
Interest on long-term borrowings	10.2	5.6	2.5	1.9	0.2	—	—
Total obligations	$ 1,796.7	$ 396.0	$ 329.5	$ 271.3	$ 452.9	$ 140.2	$ 206.8

Commitments	Total	Expiring in 2010	Expiring in 2011	Expiring in 2012	Expiring in 2013	Expiring in 2014	Thereafter
Letters of credit and surety bonds	$ 119.2	$ 119.0	$ 0.2	$ —	$ —	$ —	$ —
Freight contracts	296.2	99.2	85.8	84.3	26.9	—	—
Technology assets	2.4	2.4	—	—	—	—	—
Total commitments	$ 417.8	$ 220.6	$ 86.0	$ 84.3	$ 26.9	$ —	$ —

Lease Financing

Operating Lease Obligations. Our operating lease obligations are primarily for payments under noncancelable store leases. The commitment includes amounts for leases that were signed prior to January 30, 2010 for stores that were not yet open on January 30, 2010.

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

Credit Agreement. On February 20, 2008, we entered into a five-year $550.0 million unsecured 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 interest rate on the facility was 0.74% at January 30, 2010. 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. As of January 30, 2010, we had the $250.0 million term loan outstanding under the Agreement and no amounts outstanding under the $300.0 million revolving line of credit.

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 January 30, 2010, the balance outstanding on the bonds was $17.5 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 0.25% at January 30, 2010.

Interest on Long-term Borrowings. This amount represents interest payments on the Credit Agreement and the revenue bond financing using the interest rates for each at January 30, 2010.

Commitments

Letters of Credit and Surety Bonds. In March 2001, we entered into a Letter of Credit Reimbursement and Security Agreement, which provides $121.5 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 $101.8 million of purchases committed under these letters of credit at January 30, 2010.

We also have approximately $17.4 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 fiscal 2013. The total amount of these commitments is approximately $296.2 million.

Technology Assets. We have commitments totaling approximately $2.4 million to primarily purchase store technology assets for our stores during 2010.

Derivative Financial Instruments

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 loan. 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. These swaps qualify for hedge accounting treatment and expire in March 2011.

In the fourth quarter of 2009, we entered into fuel derivative contracts with a third party. As a result of these contracts, we have fixed the fuel price on 2.4 million gallons of diesel fuel, or approximately 25% of our fuel needs from May 2010 through January 2011. These derivative contracts do not qualify for hedge accounting and therefore all changes in fair value for these derivatives will be included directly in earnings.

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. Since our inception through fiscal 2009, we have used one inventory pool for this calculation. Over the years, we have invested in our retail technology systems, which has allowed us to refine our estimate of inventory cost under the retail method. On January, 31, 2010, the first day of fiscal 2010, we began using approximately 30 inventory pools in our retail inventory calculation. As a result of this change, we expect to record a non-cash charge to gross profit and a corresponding reduction in inventory, at cost, of approximately $26 million in the first quarter of 2010. 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 January 30, 2010 is based on estimated shrink for most of 2009, including the fourth quarter. We have not experienced significant fluctuations in historical shrink rates beyond approximately 10-20 basis points in our Dollar Tree stores for the last few 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 costs, store-level operating expenses, such as property taxes and utilities, and certain other expenses, such as legal reserves. 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 at least annually based on a review performed by a third-party actuary. These actuarial valuations are estimates based on our 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. Our legal proceedings are described in Note 4 of the Consolidated Financial Statements. The outcome of litigation, particularly class or collective action lawsuits, is difficult to assess, quantify or predict.

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 our tax returns. 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 2009, see Note 3 of 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 March 23, 2008, April 12, 2009, and will be observed on April 4, 2010. We believe that the earlier Easter in 2010 could result in a $10.0 million decrease in sales in the first quarter of 2010 as compared to the first quarter of 2009. 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.

Our unaudited results of operations for the eight most recent quarters are shown in a table in Note 11 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 unemployment and 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. We can give no assurances as to the final actual rates for 2010, as we are in the early stages of our negotiations.

Minimum Wage. On May 25, 2007, legislation was enacted that increased the Federal Minimum Wage from $5.15 an hour to $7.25 an hour in July 2009. As a result, our wages increased in 2009 and will continue to increase through the first half of 2010; however, we believe that we can partially offset the increase in payroll costs through increased productivity and continued efficiencies in product flow to our stores.

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 diesel fuel cost changes. We may enter into interest rate or diesel fuel swaps to manage exposure to interest rate and diesel fuel price changes. We do not enter into derivative instruments for any purpose other than cash flow hedging 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 derivative instruments in the form of interest rate swaps to manage fluctuations in cash flows resulting from changes in the variable-interest rates on a portion of our $250.0 million term loan. The interest rate swaps reduce the interest rate exposure on these variable-rate obligations. Under the interest rate swaps, 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. We entered into two $75.0 million interest rate swap agreements in March 2008 to manage the risk associated with the interest rate fluctuations on a portion of our $250.0 million variable rate term loan.

The following table summarizes the financial terms of our interest rate swap agreements and the fair value of the interest rate swaps at January 30, 2010:

Hedging Instrument	Receive Variable	Pay Fixed	Knock-out Rate	Expiration	Fair Value (Liability)
Two $75.0 million interest rate swaps	LIBOR	2.80%	N/A	3/31/11	($4.1 million)

Hypothetically, a 1% change in interest rates results in an approximate $1.5 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 the fair values of our interest rate swaps. These fair values are obtained from our outside financial institutions.

Diesel Fuel Cost Risk

In order to manage fluctuations in cash flows resulting from changes in diesel fuel costs, we entered into fuel derivative contracts with a third party in the fourth quarter of 2009 for 2.4 million gallons of diesel fuel, or approximately 25% of our fuel needs from May 2010 through January 2011. Under these contracts, we pay the third party a fixed price for diesel fuel and receive variable diesel fuel prices at amounts approximating current diesel fuel costs, thereby creating the economic equivalent of a fixed-rate obligation. These derivative contracts do not qualify for hedge accounting and therefore all changes in fair value for this derivative will be included directly in earnings. The fair value of these contracts at January 30, 2010 was a liability of $0.2 million.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Dollar Tree, Inc.:

We have audited the accompanying consolidated balance sheets of Dollar Tree, Inc. and subsidiaries (the Company) as of January 30, 2010 and January 31, 2009, 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 January 30, 2010. 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 January 30, 2010 and January 31, 2009, and the results of their operations and their cash flows for each of the years in the three year period ended January 30, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Dollar Tree, Inc.'s internal control over financial reporting as of January 30, 2010, 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 March 19, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Norfolk, Virginia
March 19, 2010

Consolidated Statements Of Operations

(in millions, except per share data)	**Year Ended January 30, 2010**	Year Ended January 31, 2009	Year Ended February 2, 2008
Net sales	**$ 5,231.2**	$ 4,644.9	$ 4,242.6
Cost of sales (Note 4)	**3,374.4**	3,052.7	2,781.5
Gross profit	**1,856.8**	1,592.2	1,461.1
Selling, general and administrative expenses (Notes 4, 8 and 9)	**1,344.0**	1,226.4	1,130.8
Operating income	**512.8**	365.8	330.3
Interest income	**1.9**	2.6	6.7
Interest expense (Notes 5 and 6)	**(7.1)**	(9.3)	(17.2)
Income before income taxes	**507.6**	359.1	319.8
Provision for income taxes (Note 3)	**187.1**	129.6	118.5
Net income	**$ 320.5**	$ 229.5	$ 201.3
Basic net income per share (Note 7)	**$ 3.59**	$ 2.54	$ 2.10
Diluted net income per share (Note 7)	**$ 3.56**	$ 2.53	$ 2.09

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(in millions, except share and per share data)	**January 30, 2010**	January 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 571.6**	$ 364.4
Short-term investments	**27.8**	—
Merchandise inventories	**679.8**	675.8
Deferred tax assets (Note 3)	**6.2**	7.7
Prepaid expenses and other current assets	**20.2**	25.3
Total current assets	**1,305.6**	1,073.2
Property, plant and equipment, net (Note 2)	**714.3**	710.3
Goodwill	**133.3**	133.3
Deferred tax assets (Note 3)	**35.0**	33.0
Other assets, net (Note 8)	**101.5**	85.9
TOTAL ASSETS	**$ 2,289.7**	$ 2,035.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	**$ 17.5**	$ 17.6
Accounts payable	**219.9**	192.9
Other current liabilities (Note 2)	**189.9**	152.5
Income taxes payable (Note 3)	**48.6**	46.9
Total current liabilities	**475.9**	409.9
Long-term debt, excluding current portion (Note 5)	**250.0**	250.0
Income taxes payable, long-term (Note 3)	**14.4**	14.7
Other liabilities (Notes 2, 6 and 8)	**120.2**	107.9
Total liabilities	**860.5**	782.5
Commitments and contingencies (Notes 3 and 4)		
Shareholders' equity (Notes 6, 7 and 9):		
Common stock, par value $0.01. 300,000,000 shares authorized, 87,522,970 and 90,771,397 shares issued and outstanding at January 30, 2010 and January 31, 2009, respectively	**0.9**	0.9
Additional paid-in capital	**—**	38.0
Accumulated other comprehensive income (loss)	**(2.4)**	(2.6)
Retained earnings	**1,430.7**	1,216.9
Total shareholders' equity	**1,429.2**	1,253.2
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 2,289.7**	$ 2,035.7

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Years Ended January 30, 2010, January 31, 2009, and February 2, 2008

(in millions)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Shareholders' Equity
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	—	—	—	—	—	—
Total comprehensive income						201.3
Adoption of tax uncertainty standard	—	—	—	—	(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 (Notes 3 and 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
Net income for the year ended January 31, 2009	—	—	—	—	229.5	229.5
Other comprehensive loss, net of income tax benefit of $1.7	—	—	—	(2.7)	—	(2.7)
Total comprehensive income						226.8
Issuance of stock under Employee Stock Purchase Plan (Note 9)	0.1	—	3.6	—	—	3.6
Exercise of stock options, including income tax benefit of $2.3 (Notes 3 and 9)	0.7	—	20.3	—	—	20.3
Stock-based compensation, net (Notes 1 and 9)	0.2	—	14.1	—	—	14.1
Balance at January 31, 2009	90.8	0.9	38.0	(2.6)	1,216.9	1,253.2
Net income for the year ended January 30, 2010	—	—	—	—	320.5	320.5
Other comprehensive income	—	—	—	0.2	—	0.2
Total comprehensive income						320.7
Issuance of stock under Employee Stock Purchase Plan (Note 9)	0.1		1.4		3.1	4.5
Exercise of stock options, including income tax benefit of $2.0 (Notes 3 and 9)	0.7	—	8.7	—	14.8	23.5
Repurchase and retirement of shares (Note 7)	(4.3)	—	(48.9)	—	(144.2)	(193.1)
Stock-based compensation, net, including income tax benefit of $1.9 (Notes 1, 3 and 9)	0.2	—	0.8	—	19.6	20.4
Balance at January 30, 2010	**87.5**	**$ 0.9**	**$ —**	**$ (2.4)**	**$1,430.7**	**$1,429.2**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(in millions)	**Year Ended January 30, 2010**	Year Ended January 31, 2009	Year Ended February 2, 2008
Cash flows from operating activities:			
Net income	**$ 320.5**	$ 229.5	$ 201.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**157.8**	161.7	159.3
Provision for deferred income taxes	**(0.6)**	17.0	(46.8)
Stock based compensation expense	**21.7**	16.7	11.3
Other non-cash adjustments to net income	**6.8**	7.9	8.0
Changes in assets and liabilities increasing (decreasing) cash and cash equivalents:			
Merchandise inventories	**(4.0)**	(34.6)	(36.2)
Other assets	**5.8**	27.3	(4.4)
Accounts payable	**27.0**	(7.5)	2.3
Income taxes payable	**2.0**	(36.8)	46.9
Other current liabilities	**30.5**	6.1	8.7
Other liabilities	**13.5**	15.8	16.9
Net cash provided by operating activities	**581.0**	403.1	367.3
Cash flows from investing activities:			
Capital expenditures	**(164.8)**	(131.3)	(189.0)
Purchase of short-term investments	**(27.8)**	(34.7)	(1,119.2)
Proceeds from sale of short-term investments	**—**	75.2	1,300.5
Purchase of restricted investments	**(37.3)**	(29.0)	(99.3)
Proceeds from sale of restricted investments	**17.4**	18.2	90.9
Acquisition of favorable lease rights	**—**	(0.4)	(6.6)
Net cash used in investing activities	**(212.5)**	(102.0)	(22.7)
Cash flows from financing activities:			
Principal payments under long-term debt and capital lease obligations	**(0.4)**	(1.2)	(0.6)
Borrowings from revolving credit facility	**—**	—	362.4
Repayments of revolving credit facility	**—**	—	(362.4)
Payments for share repurchases	**(190.7)**	—	(473.0)
Proceeds from stock issued pursuant to stock-based compensation plans	**25.9**	21.6	71.6
Tax benefit of exercises/vesting of equity based compensation	**3.9**	2.3	13.0
Net cash provided by (used in) financing activities	**(161.3)**	22.7	(389.0)
Net increase (decrease) in cash and cash equivalents	**207.2**	323.8	(44.4)
Cash and cash equivalents at beginning of year	**364.4**	40.6	85.0
Cash and cash equivalents at end of year	**$ 571.6**	$ 364.4	$ 40.6
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	**$ 7.1**	$ 9.7	$ 18.7
Income taxes	**$ 183.5**	$ 140.4	$ 109.5

Supplemental disclosure of non-cash investing and financing activities:

The Company had no purchases of equipment under capital lease obligations in the year ended January 30, 2010. Equipment purchased under capital lease obligations was less than $0.1 million and $0.5 million, respectively, in the years ended January 31, 2009 and February 2, 2008.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

At January 30, 2010, Dollar Tree, Inc. (the Company) owned and operated 3,806 discount variety retail stores. Approximately 3,650 of these stores sell substantially all items for $1.00 or less. Substantially all of the remaining stores are Deal$ stores that sell items for $1.00 or less but also sell items for more than $1.00. The Company's stores operate under the names of Dollar Tree, Deal$ and Dollar Bills. The Company's stores average approximately 8,500 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 and the District of Columbia. The Company's merchandise includes food, household consumables and products, party goods, health and beauty care, candy, toys, seasonal goods, stationery 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 "2009" or "Fiscal 2009," "2008" or "Fiscal 2008," and "2007" or "Fiscal 2007," relates to as of or for the years ended January 30, 2010, January 31, 2009, and February 2, 2008, respectively.

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.

Cash and Cash Equivalents

Cash and cash equivalents at January 30, 2010 and January 31, 2009 includes $506.8 million and $336.1 million, respectively, of investments primarily in money market securities which are valued at cost, which approximates fair value. 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 January 30, 2010 were $27.8 million. These investments consisted primarily of government-sponsored municipal bonds. These investments were classified as available for sale and were recorded at fair value, which approximates cost. The government-sponsored municipal bonds can be converted into cash on the dates that the interest rates for these bonds reset, which is typically weekly or monthly, depending on terms of the underlying agreement.

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 $27.4 million and $26.9 million at January 30, 2010 and January 31, 2009, 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

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" in the accompanying consolidated statements of operations.

Costs incurred related to software developed for internal use are capitalized and amortized generally over three years.

Goodwill

Goodwill is not amortized, but rather tested for impairment at least annually. 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 2009 and determined that no impairment loss existed.

Other Assets, Net

Other assets, net consists primarily of restricted investments and intangible assets. Restricted investments were $78.4 million and $58.5 million at January 30, 2010 and January 31, 2009, respectively and were purchased to collateralize long-term insurance obligations. These investments consist primarily of government-sponsored municipal bonds, similar to the Company's short-term investments and money market securities. These investments are classified as available for sale and are recorded at fair value, which approximates cost. Intangible assets primarily include favorable lease rights with finite useful lives and are amortized over their respective estimated useful lives.

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. 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 2009, 2008 and 2007, the Company recorded charges of $1.3 million, $1.2 million and $0.8 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 and diesel fuel costs. By entering into receive-variable, pay-fixed interest rate and diesel fuel swaps, the Company limits its exposure to changes in variable interest rates and diesel fuel prices. The Company is exposed to credit-related losses in the event of non-performance by the counterparty to these instruments. However, these swaps are in a net liability position as of January 30, 2010, therefore no credit risk exists as of that date. Interest rate or diesel fuel cost differentials paid or received on the swaps are recognized as adjustments to interest and freight expense, respectively, 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 interest rate swaps that qualify for hedge accounting are 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 these interest rate swaps are recorded in "accumulated other comprehensive loss", net of tax, in the accompanying consolidated balance sheets. The Company entered into diesel fuel swaps in the fourth quarter of 2009 that do not qualify for hedge accounting. The fair value of this interest rate swap is recorded in the accompanying consolidated balance sheets as a component of "other liabilities" (see Note 6).

Fair Value Measurements

In February 2008, the Financial Accounting Standards Board (FASB) released new guidance which delayed the effective date to value all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) until the first quarter of 2009. The adoption of the new guidance did not have a significant impact on the Consolidated Financial Statements.

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction

between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset and liability. As a basis for considering such assumptions, a fair value hierarchy has been established that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and

Level 3 – Unobservable inputs in which there is little or no market data which require the reporting entity to develop its own assumptions.

The Company's cash and cash equivalents, short-term investments, restricted investments and interest rate and diesel fuel swaps represent the financial assets and liabilities that were accounted for at fair value on a recurring basis as of January 30, 2010. As required, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The fair value of the Company's cash and cash equivalents, short-term investments and restricted investments was $571.6 million, $27.8 million and $78.4 million, respectively at January 30, 2010. These fair values were determined using Level 1 measurements in the fair value hierarchy. The fair value of the swaps as of January 30, 2010 was a liability of $4.3 million. These fair values were estimated using Level 2 measurements in the fair value hierarchy. These estimates used discounted cash flow calculations based upon forward interest-rate yield and diesel cost curves. The curves were obtained from independent pricing services reflecting broker market quotes.

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

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). The Company recorded an impairment charge of $1.3 million in fiscal 2009 to reduce certain store assets to their estimated fair value. The fair values were determined based on the income approach, in which the Company utilized internal cash flow projections over the life of the underlying lease agreements discounted based on a risk-free rate of return. These measures of fair value, and related inputs, are considered a level 3 approach under the fair value hierarchy. There were no other changes related to level 3 assets.

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.

Notes to Consolidated Financial Statements

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 and they are included in "selling, general and administrative expenses" on the accompanying consolidated statements of operations. Advertising costs approximated $8.3 million, $6.6 million and $8.4 million for the years ended January 30, 2010, January 31, 2009, and February 2, 2008, 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.

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.

Stock-Based Compensation

The Company recognizes all share-based payments to employees, including grants of employee stock options, in the financial statements based on their fair values. Total stock-based compensation expense for 2009, 2008 and 2007 was $21.7 million, $16.7 million and $11.3 million, respectively.

The Company recognizes expense related to the fair value of stock options and restricted stock units (RSUs) over the requisite service period on a straight-line basis. The fair value of stock option grants is estimated on the date of grant using the Black-Scholes option pricing model. The fair value of the RSUs is determined using the closing price of the Company's common stock on the date of grant.

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 after applying the treasury stock method.

NOTE 2—BALANCE SHEET COMPONENTS

Property, Plant and Equipment, Net

Property, plant and equipment, net, as of January 30, 2010 and January 31, 2009 consists of the following:

(in millions)	**January 30, 2010**	January 31, 2009
Land	**$ 29.4**	$ 29.4
Buildings	**180.2**	181.9
Leasehold improvements	**634.2**	590.9
Furniture, fixtures and equipment	**895.5**	856.0
Construction in progress	**55.5**	22.4
Total property, plant and equipment	**1,794.8**	1,680.6
Less: accumulated depreciation	**1,080.5**	970.3
Total property, plant and equipment, net	**$ 714.3**	$ 710.3

Depreciation expense was $157.8 million, $161.1 million and $158.5 million for the years ended January 30, 2010, January 31, 2009, and February 2, 2008, respectively.

Notes to Consolidated Financial Statements

Other Current Liabilities

Other current liabilities as of January 30, 2010 and January 31, 2009 consist of accrued expenses for the following:

(in millions)	**January 30, 2010**	January 31, 2009
Compensation and benefits	**$ 71.3**	$ 49.9
Taxes (other than income taxes)	**26.7**	22.3
Insurance	**27.4**	30.3
Other	**64.5**	50.0
Total other current liabilities	**$ 189.9**	$ 152.5

Other Long-Term Liabilities

Other long-term liabilities as of January 30, 2010 and January 31, 2009 consist of the following:

(in millions)	**January 30, 2010**	January 31, 2009
Deferred rent	**$ 69.3**	$ 62.3
Insurance	**38.5**	31.1
Other	**12.4**	14.5
Total other long-term liabilities	**$ 120.2**	$ 107.9

NOTE 3—INCOME TAXES

Total income taxes were allocated as follows:

(in millions)	**Year Ended January 30, 2010**	Year Ended January 31, 2009	Year Ended February 2, 2008
Income from continuing operations	**$ 187.1**	$ 129.6	$ 118.5
Accumulated other comprehensive income(loss) marking derivative financial instruments to fair value	**0.1**	(1.7)	—
Stockholders' equity, tax benefit on exercises/vesting of equity based compensation	**(3.9)**	(2.3)	(13.0)
	$ 183.3	$ 125.6	$ 105.5

The provision for income taxes consists of the following:

(in millions)	**Year Ended January 30, 2010**	Year Ended January 31, 2009	Year Ended February 2, 2008
Federal - current	**$ 160.2**	$ 91.9	$ 147.5
State - current	**27.5**	20.7	17.8
Total current	**187.7**	112.6	165.3
Federal - deferred	**(0.4)**	15.4	(39.4)
State - deferred	**(0.2)**	1.6	(7.4)
Total deferred	**(0.6)**	17.0	(46.8)
Provision for income taxes	**$ 187.1**	$ 129.6	$ 118.5

Included in current tax expense for the years ended January 30, 2010 and January 31, 2009, are amounts related to uncertain tax positions associated with temporary differences.

Notes to Consolidated Financial Statements

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

	Year Ended January 30, 2010	Year Ended January 31, 2009	Year Ended February 2, 2008
Statutory tax rate	**35.0%**	35.0%	35.0%
Effect of:			
State and local income taxes, net of federal income tax benefit	**3.3**	3.0	2.9
Other, net	**(1.4)**	(1.9)	(0.8)
Effective tax rate	**36.9%**	36.1%	37.1%

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)	**January 30, 2010**	January 31, 2009
Deferred tax assets:		
Accrued expenses	**$ 41.3**	$ 39.2
Property and equipment	**11.3**	12.3
State tax net operating losses and credit carryforwards, net of federal benefit	**6.7**	5.4
Accrued compensation expense	**22.1**	14.9
Other	**1.6**	1.7
Total deferred tax assets	**83.0**	73.5
Valuation allowance	**(6.1)**	(4.9)
Deferred tax assets, net	**76.9**	68.6
Deferred tax liabilities:		
Goodwill	**(15.1)**	(13.5)
Prepaid expenses	**(7.0)**	(10.4)
Inventory	**(13.6)**	(4.0)
Total deferred tax liabilities	**(35.7)**	(27.9)
Net deferred tax asset	**$ 41.2**	$ 40.7

A valuation allowance of $6.1 million, net of Federal tax benefits, has been provided principally for certain state credit carryforwards and net operating losses. In assessing the realizability of deferred tax assets, the Company 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 the Company's projections for future taxable income over the periods in which the deferred tax assets are deductible, the Company 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.

Notes to Consolidated Financial Statements

The Company is participating in the Internal Revenue Service ("IRS") Compliance Assurance Program ("CAP") for the 2009 tax year and will participate for 2010. This program accelerates the examination of key transactions with the goal of resolving any issues before the tax return is filed. Our federal tax returns have been examined and all issues have been settled through 2007. IRS is currently examining the 2008 tax return. In addition, several states completed their examination of fiscal years prior to 2005. In general, fiscal years 2006 and forward are within the statute of limitations for state tax purposes. The statute of limitations is still open prior to 2005 for some states.

The balance for unrecognized tax benefits at January 30, 2010, was $14.4 million. The total amount of unrecognized tax benefits at January 30, 2010, that, if recognized, would affect the effective tax rate was $9.6 million (net of the federal tax benefit). The following is a reconciliation of the Company's total gross unrecognized tax benefits for the year ended January 30, 2010:

	(in millions)
Balance at January 31, 2009	$ 14.7
Additions, based on tax positions related to current year	0.2
Additions for tax positions of prior years	1.4
Reductions for tax positions of prior years	(1.0)
Settlements	(0.4)
Lapses in statute of limitations	(0.5)
Balance at January 30, 2010	$ 14.4

During fiscal 2009, the Company accrued potential interest of $0.8 million, related to these unrecognized tax benefits. No potential penalties were accrued during 2009 related to the unrecognized tax benefits. As of January 30, 2010, the Company has recorded a liability for potential penalties and interest of $0.1 million and $3.0 million, respectively.

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)
2010	$ 372.8
2011	326.9
2012	269.3
2013	202.7
2014	140.2
Thereafter	206.8
Total minimum lease payments	$ 1,518.7

The above future minimum lease payments include amounts for leases that were signed prior to January 30, 2010 for stores that were not open as of January 30, 2010.

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 $2.8 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 January 30, 2010**	Year Ended January 31, 2009	Year Ended February 2, 2008
Minimum rentals	**$ 349.9**	$ 323.9	$ 295.4
Contingent rentals	**1.0**	(0.3)	1.2

Non-Operating Facilities

The Company is responsible for payments under leases for certain closed stores. 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, $0.6 million and $0.1 million in 2009, 2008 and 2007, respectively.

Related Parties

The Company 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 January 30, 2010, January 31, 2009 and February 2, 2008, respectively. Total future commitments under related party leases are $2.5 million.

Freight Services

The Company has contracted outbound freight services from various contract carriers with contracts expiring through fiscal 2013. The total amount of these commitments is approximately $296.2 million, of which approximately $99.2 million is committed in 2010, $85.8 million is committed in 2011, $84.3 million is committed in 2012 and $26.9 million is committed in 2013.

Technology Assets

The Company has commitments totaling approximately $2.4 million to purchase store technology assets for its stores during 2010.

Letters of Credit

In March 2001, the Company entered into a Letter of Credit Reimbursement and Security Agreement. The agreement provides $121.5 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 $101.8 million was committed to these letters of credit at January 30, 2010. As discussed in Note 5, the Company has $150.0 million of available letters of credit included in the $550.0 million Unsecured Credit Agreement (the Agreement) entered into on February 20, 2008. As of January 30, 2010, there were no letters of credit committed under the Agreement.

The Company also has approximately $15.0 million in stand-by letters of credit that serve as collateral for its self-insurance programs and expire in fiscal 2010.

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 $2.4 million, which is committed through various dates through fiscal 2011.

Contingencies

In 2006, a former store manager filed a collective action against the Company in Alabama federal court. She claims that she and other store managers should have been classified as non-exempt employees under the Fair Labor Standards Act and received overtime

compensation. The Court preliminarily allowed nation-wide (except California) notice to be sent to all store managers employed for the three years immediately preceding the filing of the suit. Approximately 500 individuals are included in the collective action. The Court presently has before it the Company's motion to decertify the collective action together with the briefs of the parties. If the motion is denied and the case proceeds as a collective action, it is scheduled for trial in the summer of 2010. The Company is vigorously defending itself in this matter.

In 2007, two store managers filed a class action against the Company in California federal court, claiming they and other California store managers should have been classified as non-exempt employees under California and federal law. The Court has allowed notice to be sent to all California store managers employed since December 12, 2004, and a class of approximately 720 individuals exists. Following discovery, which is on-going, the Company anticipates it will seek to decertify the class. No trial date has been scheduled. The Company is vigorously defending itself in this matter.

In 2008, the Company was sued under the Equal Pay Act in Alabama federal court by two female store managers alleging that they and other female store managers were paid less than male store managers. Among other things, they seek monetary damages and back pay. The Court ordered that notice be sent to potential plaintiffs and there are now approximately 340 opt in plaintiffs. The Company expects that the Court will consider a motion by the Company to decertify the collective action later in 2010. In October 2009, 34 plaintiffs, most of whom are opt-in plaintiffs in the Alabama action, filed a new class action Complaint in a federal court in Virginia, alleging gender pay and promotion discrimination under Title VII. Subsequent to year end, the case was dismissed with prejudice. At this date, the plaintiffs have a right of appeal to the U.S. Court of Appeals for the Fourth Circuit.

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 January 30, 2010 and January 31, 2009 consists of the following:

(in millions)	**January 30, 2010**	January 31, 2009
$550.0 million Unsecured Credit Agreement, interest payable monthly at LIBOR, plus 0.50%, which was 0.74% at January 30, 2010, principal payable upon expiration of the facility in February 2013	**$ 250.0**	$ 250.0
Demand Revenue Bonds, interest payable monthly at a variable rate which was 0.25% at January 30, 2010, principal payable on demand, maturing June 2018	**17.5**	17.6
Total long-term debt	**$ 267.5**	$ 267.6
Less current portion	**17.5**	17.6
Long-term debt, excluding current portion	**$ 250.0**	$ 250.0

Maturities of long-term debt are as follows: 2010 - $17.5 million and 2013 - $250.0 million.

Unsecured Credit Agreement

On February 20, 2008, the Company entered into the Agreement which 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 is based, at the Company's option, on a LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The revolving line of credit also bears a facilities fee, calculated as a percentage, as defined, of the amount available under the line of credit, payable quarterly. The 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. As of January 30, 2010, we had the $250.0 million term loan outstanding under the Agreement and no amounts outstanding under the $300.0 million revolving line of credit.

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.

NOTE 6—DERIVATIVE FINANCIAL INSTRUMENTS

Hedging Derivatives

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 variable rate debt. 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 equals the variable rate on the debt, excluding the credit spread. These swaps qualify for hedge accounting treatment and expire in March 2011. The fair value of these swaps as of January 30, 2010 was a liability of $4.1 million.

In order to manage fluctuations in cash flows resulting from changes in diesel fuel costs, we entered into fuel derivative contracts with a third party in the fourth quarter of 2009 for 2.4 million gallons of diesel fuel, or approximately 25% of our fuel needs from May 2010 through January 2011. Under these contracts, we pay the third party a fixed price for diesel fuel and receive variable diesel fuel prices at amounts approximating current diesel fuel costs, thereby creating the economic equivalent of a fixed-rate obligation. These derivative contracts do not qualify for hedge accounting and therefore all changes in fair value for these derivatives will be included directly into earnings. The fair value of these contracts at January 30, 2010 was a liability of $0.2 million.

Notes to Consolidated Financial Statements

NOTE 7—SHAREHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue 10,000,000 shares of Preferred Stock, $0.01 par value per share. No preferred shares are issued and outstanding at January 30, 2010 and January 31, 2009.

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 January 30, 2010**	Year Ended January 31, 2009	Year Ended February 2, 2008
Basic net income per share:			
Net income	**$ 320.5**	$ 229.5	$ 201.3
Weighted average number of shares outstanding	**89.4**	90.3	95.9
Basic net income per share	**$ 3.59**	$ 2.54	$ 2.10
Diluted net income per share:			
Net income	**$ 320.5**	$ 229.5	$ 201.3
Weighted average number of shares outstanding	**89.4**	90.3	95.9
Dilutive effect of stock options and restricted stock (as determined by applying the treasury stock method)	**0.6**	0.5	0.5
Weighted average number of shares and dilutive potential shares outstanding	**90.0**	90.8	96.4
Diluted net income per share	**$ 3.56**	$ 2.53	$ 2.09

At January 30, 2010, less than 0.1 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. At January 31, 2009 and February 2, 2008, 0.5 million, and 0.4 million stock options, respectively 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

The Company repurchased approximately 4.3 million shares for approximately $193.1 million in fiscal 2009. Less than 0.1 million shares totaling $2.4 million had not settled as of January 30, 2010 and these amounts have been accrued in the accompanying consolidated balance sheets as of January 30, 2010. The Company repurchased approximately 12.8 million shares for approximately $473.0 million in fiscal 2007. The Company had no share repurchases in fiscal 2008. At January 30, 2010, the Company had approximately $260.6 million remaining under Board authorization.

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.

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 January 30, 2010	**$30.4 million**
Year Ended January 31, 2009	21.6 million
Year Ended February 2, 2008	19.0 million

Eligible employees hired prior to January 1, 2007 are immediately vested in the Company's profit sharing contributions. Eligible employees hired on or subsequent to January 1, 2007 vest in the Company's profit sharing contributions based on the following schedule:

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

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

Deferred Compensation Plan

The Company has a deferred compensation plan which provides certain officers and executives the ability to defer a portion of their base compensation and bonuses and invest their deferred amounts. The plan is a nonqualified plan and the Company may make discretionary contributions. The deferred amounts and earnings thereon are payable to participants, or designated beneficiaries, at specified future dates, or upon retirement or death. Total cumulative participant deferrals were approximately $1.8 million and $1.5 million, respectively, at January 30, 2010 and January 31, 2009, and are included in "other liabilities" on the accompanying consolidated balance sheets. The related assets are included in "other assets, net" on the accompanying consolidated balance sheets. The Company did not make any discretionary contributions in the years ended January 30, 2010, January 31, 2009, or February 2, 2008.

NOTE 9—STOCK-BASED COMPENSATION PLANS

At January 30, 2010, 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 (EIP).

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 Executive Officer Equity Incentive 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 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 on the date of deferral. The number of options issued to a director will equal the deferred fee amount divided by 33% of the price of a share of the Company's common stock. The exercise price will equal the fair market value of the Company's common stock at the date the option is issued. The options are fully vested when issued and have a term of 10 years.

Notes to Consolidated Financial Statements

Stock Options

In 2008 and 2007, the Company granted a total of 0.5 million and 0.4 million service based stock options from the EIP, EOEP and the NEDP, respectively. In 2009, the Company granted less than 0.1 million service based stock options from these plans. 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. All options granted to directors vest immediately and are expensed on the grant date. During 2009, 2008 and 2007, the Company recognized $3.7 million, $4.7 million and $2.7 million, respectively of expense related to service based stock option grants. As of January 30, 2010, there was approximately $3.3 million of total unrecognized compensation expense related to these stock options which is expected to be recognized over a weighted average period of 15 months.

In 2008, the Company granted 0.1 million stock options from the EIP and the EOEP to certain officers of the Company, contingent on the Company meeting certain performance targets in 2008 and future service of these officers through fiscal 2009. The Company met these performance targets in fiscal 2008; therefore, the fair value of these stock options of $1.0 million was expensed over the service period. The Company recognized $0.5 million of expense on these stock options in 2009 and in 2008. The fair value of these stock options was determined using the Company's closing stock price on the grant date.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model. 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. The weighted average assumptions used in the Black-Scholes option pricing model for grants in 2009, 2008 and 2007 are as follows:

	Fiscal 2009	Fiscal 2008	Fiscal 2007
Expected term in years	**6.0**	6.0	6.0
Expected volatility	**43.6%**	45.7%	28.4%
Annual dividend yield	**—**	—	—
Risk free interest rate	**2.0%**	2.8%	4.5%
Weighted average fair value of options granted during the period	**$20.76**	$13.45	$14.33
Options granted	**15,939**	558,293	386,490

Notes to Consolidated Financial Statements

The following tables summarize the Company's various option plans and information about options outstanding at January 30, 2010 and changes during the year then ended.

Stock Option Activity

January 30, 2010	Shares	Weighted Average Per Share Exercise Price	Weighted Average Remaining Term	Aggregate Intrinsic Value *(in millions)*
Outstanding, beginning of period	1,942,616	$ 29.41		
Granted	15,939	43.97		
Exercised	(700,803)	30.68		
Forfeited	(30,913)	25.50		
Outstanding, end of period	1,226,839	$ 29.00	5.6	$ 25.1
Options vested and expected to vest at January 30, 2010	1,199,882	$ 29.05	5.6	$ 24.6
Options exercisable at end of period	741,484	$ 28.06	4.1	$ 15.9

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding at January 30, 2010	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at January 30, 2010	Weighted Average Exercise Price
$0.86	1,116	N/A	$ 0.86	1,116	$ 0.86
$10.99 to $21.28	150,568	2.8	19.57	150,568	19.57
$21.29 to $29.79	615,637	6.4	26.12	293,125	25.85
$29.80 to $43.56	445,677	5.2	35.67	290,991	34.43
$43.57 to $48.36	13,841	9.3	44.68	5,684	46.65
$0.86 to $48.36	1,226,839	6.4	$ 29.00	741,484	$ 28.06

The intrinsic value of options exercised during 2009, 2008 and 2007 was approximately $11.0 million, $7.2 million and $32.8 million, respectively.

Restricted Stock

The Company granted 0.4 million, 0.4 million and 0.3 million service based RSUs, net of forfeitures in 2009, 2008 and 2007, 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 $12.8 million, $9.5 million and $7.7 million of expense related to these RSUs during 2009, 2008 and 2007. As of January 30, 2010, there was approximately $15.9 million of total unrecognized compensation expense related to these RSUs which is expected to be recognized over a weighted average period of 20 months.

In 2009, the Company granted 0.2 million RSUs from the EIP and the EOEP to certain officers of the Company, contingent on the Company meeting certain performance targets in 2009 and future service of these officers through fiscal 2010. The Company met these performance targets in fiscal 2009; therefore, the fair value of these RSUs of $6.4 million is being expensed over the service period. The Company recognized $2.7 million of expense on these RSUs in 2009. The fair value of these RSUs was determined using the Company's closing stock price on the grant date.

In 2008, the Company granted 0.1 million RSUs from the EIP and the EOEP to certain officers of the

Company, contingent on the Company meeting certain performance targets in 2008 and future service of these officers through fiscal 2009. The Company met these performance targets in fiscal 2008; therefore, the fair value of these RSUs of $2.3 million was expensed over the service period. The Company recognized $1.1 million and $1.2 million of expense on these RSUs in 2009 and 2008, respectively. The fair value of these RSUs was determined using the Company's closing stock price on the grant date.

The following table summarizes the status of RSUs as of January 30, 2010, and changes during the year then ended:

	Shares	**Weighted Average Grant Date Fair Value**
Nonvested at January 31, 2009	747,493	$ 30.13
Granted	566,950	43.31
Vested	(308,744)	31.20
Forfeited	(42,251)	36.19
Nonvested at January 30, 2010	963,448	$ 37.29

In connection with the vesting of RSUs in 2009, 2008 and 2007, certain employees elected to receive shares net of minimum statutory tax withholding amounts which totaled $4.8 million, $2.6 million and $2.9 million, respectively. The total fair value of the restricted shares vested during the years ended January 30, 2010, January 31, 2009 and February 2, 2008 was $9.6 million, $8.0 million and $8.2 million, respectively.

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 1,333,000 shares as of January 30, 2010.

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 2009	Fiscal 2008	Fiscal 2007
Expected term	**3 months**	3 months	3 months
Expected volatility	**17.4%**	25.6%	16.3%
Annual dividend yield	**—**	—	—
Risk free interest rate	**1.8%**	3.8%	4.4%

The weighted average per share fair value of those purchase rights granted in 2009, 2008 and 2007 was $7.78, $5.89 and $5.74, respectively. Total expense recognized for these purchase rights was $0.9 million, $0.8 million and $0.9 million in 2009, 2008 and 2007, respectively.

NOTE 10—SUBSEQUENT EVENT

As noted in footnote 1, the Company assigns cost to store inventories using the retail inventory method, determined on a weighted average cost basis. Since inception through fiscal 2009, the Company used one inventory pool for this calculation. Over the years, we have invested in our retail technology systems, which has allowed us to refine our estimate of inventory cost under the retail method. On January, 31, 2010, the first day of fiscal 2010, the Company began using approximately 30 inventory pools in its retail inventory calculation. As a result of this change, the Company will record a non-cash charge to gross profit and a corresponding reduction in inventory, at cost, of approximately $26 million in the first quarter of 2010. This is a prospective change and will not have any effect on prior periods.

Notes to Consolidated Financial Statements

NOTE 11—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 2009 and 2008. 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
Fiscal 2009:				
Net sales	**$ 1,201.1**	**$1,222.8**	**$1,248.7**	**$1,558.6**
Gross profit	**$ 415.4**	**$ 421.8**	**$ 441.2**	**$ 578.4**
Operating income	**$ 97.6**	**$ 89.2**	**$ 107.6**	**$ 218.4**
Net income	**$ 60.4**	**$ 56.9**	**$ 68.2**	**$ 135.0**
Diluted net income per share	**$ 0.66**	**$ 0.63**	**$ 0.76**	**$ 1.52**
Stores open at end of quarter	**3,667**	**3,717**	**3,803**	**3,806**
Comparable store net sales change	**9.2%**	**6.8%**	**6.5%**	**6.6%**
Fiscal 2008:				
Net sales	$ 1,051.3	$ 1,093.1	$ 1,114.0	$ 1,386.5
Gross profit	$ 356.5	$ 363.1	$ 379.4	$ 493.2
Operating income	$ 69.7	$ 61.6	$ 69.3	$ 165.2
Net income	$ 43.6	$ 37.6	$ 43.1	$ 105.2
Diluted net income per share	$ 0.48	$ 0.42	$ 0.47	$ 1.15
Stores open at end of quarter	3,474	3,517	3,572	3,591
Comparable store net sales change	2.1%	6.5%	6.2%	2.2%

(1) Easter was observed on April 12, 2009 and March 23, 2008

Board of Directors

Macon F. Brock, Jr., *Chairman*
Arnold S. Barron
Mary Anne Citrino
H. Ray Compton
Conrad M. Hall
Richard G. Lesser
Lemuel E. Lewis
J. Douglas Perry, *Chairman Emeritus*
Bob Sasser
Thomas A. Saunders, III, *Lead Independent Director*
Thomas E. Whiddon
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
Gary M. Philbin,
Chief Operating Officer
Robert H. Rudman,
Chief Merchandising Officer
Kevin S. Wampler,
Chief Financial Officer
Stephen W. White,
Chief Logistics Officer

Transfer Agent

Computershare
P.O. Box 43078
Providence, RI 02940
Tel: 800-622-6757

Legal Counsel

Williams Mullen
999 Waterside Drive
Suite 1700
Norfolk, VA 23510

Independent Registered Public Accounting Firm

KPMG LLP
999 Waterside Drive
Suite 2100
Norfolk, VA 23510

Stock Listing

Dollar Tree's common stock is traded on the NASDAQ Global Select Market. The Company's common stock has been traded on NASDAQ 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 2009 and 2008.

Stock Price

	HIGH	LOW
2009		
First Quarter	**$45.33**	**$32.94**
Second Quarter	**47.28**	**40.58**
Third Quarter	**51.72**	**44.00**
Fourth Quarter	**52.20**	**45.76**
2008		
First Quarter	$32.45	$24.37
Second Quarter	40.00	30.14
Third Quarter	42.20	30.17
Fourth Quarter	44.11	32.97

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 17, 2010, at the Westin Virginia Beach Town Center, 4535 Commerce Street, Virginia Beach, VA 23462.

Fiscal 2010 Earnings Release Calendar*

First quarter, May 20
Second quarter, August 19
Third quarter, November 18
Fourth quarter, February 23, 2011
*Dates are subject to change.

Investors' Inquiries

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

Investor Relations
Dollar Tree, Inc.
500 Volvo Parkway
Chesapeake, VA 23320
(757) 321-5000

Or from the Investor Relations section of our Company web site: www.DollarTreeinfo.com

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