Silver Anniversary

GOLD MEDAL RESULTS

DOLLAR TREE, INC. • 2010 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 $1 at its 164 Deal$ stores and at prices of $1.25 (CAD) in its 86 stores in Canada.

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 4,100 stores, which are located across the 48 contiguous United States and four Canadian provinces, supported by a coast-to-coast logistics network and over 60,000 associates. The Company is *the* destination for value for millions of shoppers from coast to coast every day and is reaching new customers via the internet at www.dollartree.com. A Fortune 500 company, Dollar Tree is headquartered in Chesapeake, Virginia.

TABLE OF CONTENTS

FINANCIAL HIGHLIGHTS

(in millions, except store and per share data)	2010[a]	2009	2008	2007	2006[b]
Net Sales	**$ 5,882.4**	$ 5,231.2	$ 4,644.9	$ 4,242.6	$ 3,969.4
Gross Profit	**2,087.6**	1,856.8	1,592.2	1,461.1	1,357.2
Operating Income	**630.0**	512.8	365.8	330.3	310.8
Net Income	**397.3**	320.5	229.5	201.3	192.0
Diluted Net Income Per Share[c]	**3.10**	2.37	1.69	1.39	1.23
Working Capital	**$ 800.4**	$ 829.7	$ 663.3	$ 382.9	$ 575.7
Total Assets	**2,380.5**	2,289.7	2,035.7	1,787.7	1,882.2
Total Debt	**267.8**	267.8	268.2	269.4	269.5
Shareholders' Equity	**1,459.0**	1,429.2	1,253.2	988.4	1,167.7
Number of Stores Open	**4,101**	3,806	3,591	3,411	3,219
Total Selling Square Footage	**35.1**	32.3	30.3	28.4	26.3
Comparable Store Net Sales Increase[d]	**6.3%**	7.2%	4.1%	2.7%	4.6%
Average Net Sales Per Store[d]	**$ 1.5**	$ 1.4	$ 1.3	$ 1.3	$ 1.3

(a) The Company recorded a non-recurring, non-cash charge to gross profit and a corresponding reduction in inventory, at cost, of $26.3 million in the first quarter 2010. Excluding this charge, diluted earnings per share in 2010 were $3.23.

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

(c) Reflects 3 for 2 stock split in June 2010.

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

Bob Sasser
President and Chief Executive Officer

TO OUR SHAREHOLDERS

As Dollar Tree celebrates its Silver Anniversary, I am pleased to report that the Company is strong, growing, and our values have never been higher. Over the 25-year history of the Company, Dollar Tree has grown consistently, in good times and tough times. In fact, the Company has increased sales and earnings per share every year since becoming public in 1995. In 2010, Dollar Tree once again achieved record results.

- Net sales were $5.88 billion; an increase of 12.4% over fiscal 2009.
- Comparable-store sales increased 6.3% on top of a 7.2% comparable-store sales increase last year.
- Earnings in fiscal 2010 increased to a record $3.10 per share. This includes a non-recurring, non-cash charge of $26.3 million, or $0.13 cents per share relating to a change in retail inventory accounting which was recorded in the first quarter 2010.
- Excluding the charge:
  - Earnings per share were $3.23 – an increase of 36.3% over 2009 reported EPS of $2.37, which was itself an increase of more than 40% over the previous year.
  - Operating margin was 11.1%, compared with operating margin of 9.8% in 2009. Dollar Tree's operating margin remains among the highest in the value retail sector.
  - Operating income increased by $143.5 million,
  - And Net income rose 29.1%, to $413.7 million.

In addition, in 2010, Dollar Tree:

- Expanded selling square footage 8.8%, opening 235 new stores, expanding or relocating 95 stores and acquiring 86 stores, providing new jobs and growth opportunities for our associates.
- Surpassed 4,000 stores in operation and ended the year with 4,101 stores.
- Achieved the highest new store productivity since 2002.
- Increased inventory turns for the sixth consecutive year, to 4.17 turns in 2010 compared with 4.06 turns in 2009.
- Opened a new Distribution Center in San Bernardino, on-time and on-budget.
- Expanded into Canada.
- Executed a 3-for-2 stock split, and
- Repurchased 9.3 million shares for $414.7 million.

These results were achieved through the efforts of thousands of Dollar Tree associates. They reflect the underlying strength of our model, our infrastructure, and our strategy. In an ever-changing environment, Dollar Tree continues to find ways to better serve our customers, operate more efficiently and successfully compete in the marketplace.

Proven Concept – Solid Foundation

Our success through the years has been validation of our concept, our unique sourcing model, the quality of our stores and the infrastructure that supports them, with everything revolving around the customer.

Unique Sourcing Model

Dollar Tree has a very flexible merchandising model, which we use to our advantage. Our assortments are built with two requirements in mind:

- To offer the greatest value to the customer for $1, and to do so
- At a cost that delivers our desired merchandise margin.

We are not locked in to any specific item. To the contrary, for twenty-five years, customers have come to expect new, fresh items and surprising values every time they visit a Dollar Tree store. Our unique merchandise model provides us greater control of our mix and as a result, our margins. In fact, margin at Dollar Tree is generally a function of the mix of product rather than fluctuations in the cost of specific items. Our model has been validated by results. History shows that we are consistently able to manage through inflationary and deflationary cycles by changing the product or changing the source while maintaining our focus on achieving margin targets and providing great value to our customers for their dollar.

Retail Technology

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. This translates into a better customer experience, improved sell-through and increased inventory turns – which rose for the sixth consecutive year in 2010 to 4.17, from 4.06 turns in 2009.

Logistics

We have built a solid and scalable logistics infrastructure to support our nationwide retail footprint, which we continually upgrade as we provide for sustained, profitable growth. In April 2010, we opened a new Distribution Center in San Bernardino, CA to provide more efficient service and to provide for expanded growth in Southern California and the Southwestern U.S. The total facility cost of approximately $37 million was financed using available cash.

In 2011, we are expanding our Distribution Center in Savannah Georgia to support growth in the Southeast. The expansion will bring the Savannah facility from its current size of 600,000 square feet to one million square feet. This project involves $19 million of capital investment, using existing cash, and should be completed in the third quarter. With the completion of this expansion, our network of nine Company-owned DCs will have the capacity to support $8 billion in annual sales in the U.S. with no meaningful additional investment. Our logistics infrastructure provides efficient service to our stores today, room for expansion and continuing asset leverage. Every new store that we open makes our network more efficient, and we continue to build more stores.

The Future: More Stores, Better Stores, New Formats

More Stores

Dollar Tree has expanded its store count every year and we will continue to build more stores for the foreseeable future. During 2010, we opened 235 new stores and relocated and expanded 95 stores for a total of 330 projects. We ended the year with 4,101 stores. The new store class of 2010 averaged approximately 10,000 square feet, similar to the class of 2009. Our plan for 2011 includes 300 new stores and 75 relocations for a total of 375 projects.

Better Stores

Along with expanding the number of stores, we are focused on operating better, more productive stores. Efforts have concentrated on improved site selection, on opening new stores earlier in the year and on right-sizing our stores at about 10,000 – 12,000 square feet. 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. Average new store productivity increased once again in 2010, continuing a five-year trend.

Our expansion of frozen and refrigerated product continues. We installed freezers and coolers in 421 stores in 2010, including 124 new stores. Frozen and refrigerated product is now available in 1,844 stores. This product serves the current needs of our customers, drives traffic into our stores and provides incremental sales across all categories – including our higher margin discretionary products. The plan is to continue to expand this category. In 2011, we intend to expand frozen and refrigerated capability to an additional 225 stores.

New Formats, New Markets, New Channels

While we are growing our business through more stores, the development of new categories and more productive stores, we are also developing New Formats, entering New Markets and adding New Channels of distribution to customers.

New Formats – Deal$, our multi-price format, continues to gain traction – extending our ability to serve more customers and our increasing growth potential. By the end of 2010 we were operating 164 Deal$ stores in 19 states. At Deal$, not everything’s $1, but everything is a value. In 2010, we continued to improve the operating metrics at Deal$, upgrading our standards to provide a better, more compelling customer experience. We also saw improving sales trends at our Deal$ stores, particularly in the new stores that we've opened in the past four years. Deal$ traffic, ticket, and average unit retail all increased in 2010.

Looking forward to 2011, 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$. We will also continue to roll out new Deal$ stores in targeted locations in a measured and thoughtful way. We opened 15 new Deal$ stores in 2010 and we intend to open 35 new Deal$ stores in 2011.

New Markets – During the fourth quarter we acquired Dollar Giant stores in Canada – the first expansion of our retail operations outside of the United States. Dollar Giant was founded in 2000 and by 2010 had grown to a chain of 86 stores. The stores average 9,000 square feet, gross, and are located in four provinces: British Columbia, Ontario, Alberta and Saskatchewan. Each store offers a mix of things you want and things you need all priced at $1.25 (CAD) or less.

Dollar Giant is successful, growing and profitable, with an outstanding management team. The management and associates have extensive retail experience and the proven ability to build and expand an effective, profitable business. They are among the key reasons for my confidence about our future success in Canada.

In 2011, we intend to expand the store count by about 20%, while establishing an infrastructure of store teams, systems and logistics to support more aggressive store growth in the future. Over the long term, we believe the Canadian market can support 900 to 1,000 Dollar Tree stores. This is in addition to the 7,000 store potential for Dollar Tree in the United States plus additional growth in our Deal$ format.

New Channels – Dollar Tree Direct, our e-commerce business, is an opportunity to reach new customers through an additional channel of distribution. We launched Dollar Tree Direct in early 2009. It is 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. We see major potential to grow this business. In 2010, we expanded our assortment, increased the number of items available exclusively on Dollar Tree Direct and enhanced the site to improve the customer experience and expand our reach.

- There are now over 2,000 products available for sale on-line – nearly double the number this time last year. Examples of new on-line category additions in 2010 include such things as kitchen gadgets, kitchen linen & textiles, nutrition bars and energy drinks to name a few.
- The Homepage was redesigned to feature more engaging content and to showcase key events and hot items. Customers asked for more things to see and do on the site and we are responding.
- There were more than 10 million visitors to our site in 2010, with nearly seven million in the second half of the year.
- In addition, 100 million emails were sent to existing and potential customers in 2010 and over 500,000 catalogues were mailed to customers.

There is great potential in Dollar Tree Direct and I am pleased with the progress the team has made.

Corporate Governance and Shareholder Value

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

Our Board of Directors is active, involved, and committed to strong corporate governance. 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 and the effectiveness of the Board, Board committees, and individual directors. The Board is also committed to reviewing best practices and has made several changes in recent years. We maintain an open dialogue with shareholders on governance matters and we continue increasing our 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 2010, 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 2011, 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 2010, we repurchased 9.3 million shares for $414.7 million. Altogether, since 2003, the Company has invested approximately $1.6 billion for share repurchase without increasing long-term debt.

Summary

Dollar Tree is now in its 25th year and at Dollar Tree stores, everything is still $1! No other retailer can say that. Moreover, the Company has a long history of growth and exemplary financial performance. Our success has been built on a solid foundation, guided by a long-term strategy and sustained by the flexibility to re-invent ourselves continuously to thrive in changing environments. Our growth has been measured, disciplined and strategic. We continuously examine and refine our store model and assortments to maximize our relevance to customers and our financial returns for shareholders.

By any measure, 2010 was an outstanding year, and we can do even better. Dollar Tree has plenty of opportunities to grow our business, a vision of where we want to go and the infrastructure and capital to make it happen. We have a strong and flexible business model that can adapt to a changing environment. With our balanced mix of high value consumer basics and unique assortment of fun, compelling, seasonally-correct discretionary products, Dollar Tree is positioned to be relevant to customers in all economic circumstances.

Dollar Tree stores are strategically located to serve middle-America; they're bright, convenient and fun to shop. We have a solid and scalable infrastructure that we are leveraging for better inventory management, increasingly efficient supply chain logistics, more productive stores, and crisper overall execution. We generate substantial free cash, and we use our capital for the long-term benefit of shareholders.

We have a series of initiatives in place to drive our business to higher levels in 2011 and beyond. We are focused on expanding our store base, improving store productivity, developing new retail formats, expanding into new markets and adding new channels of distribution. These investments bring greater opportunities for our associates to grow and develop their skills, while expanding overall employment opportunities.

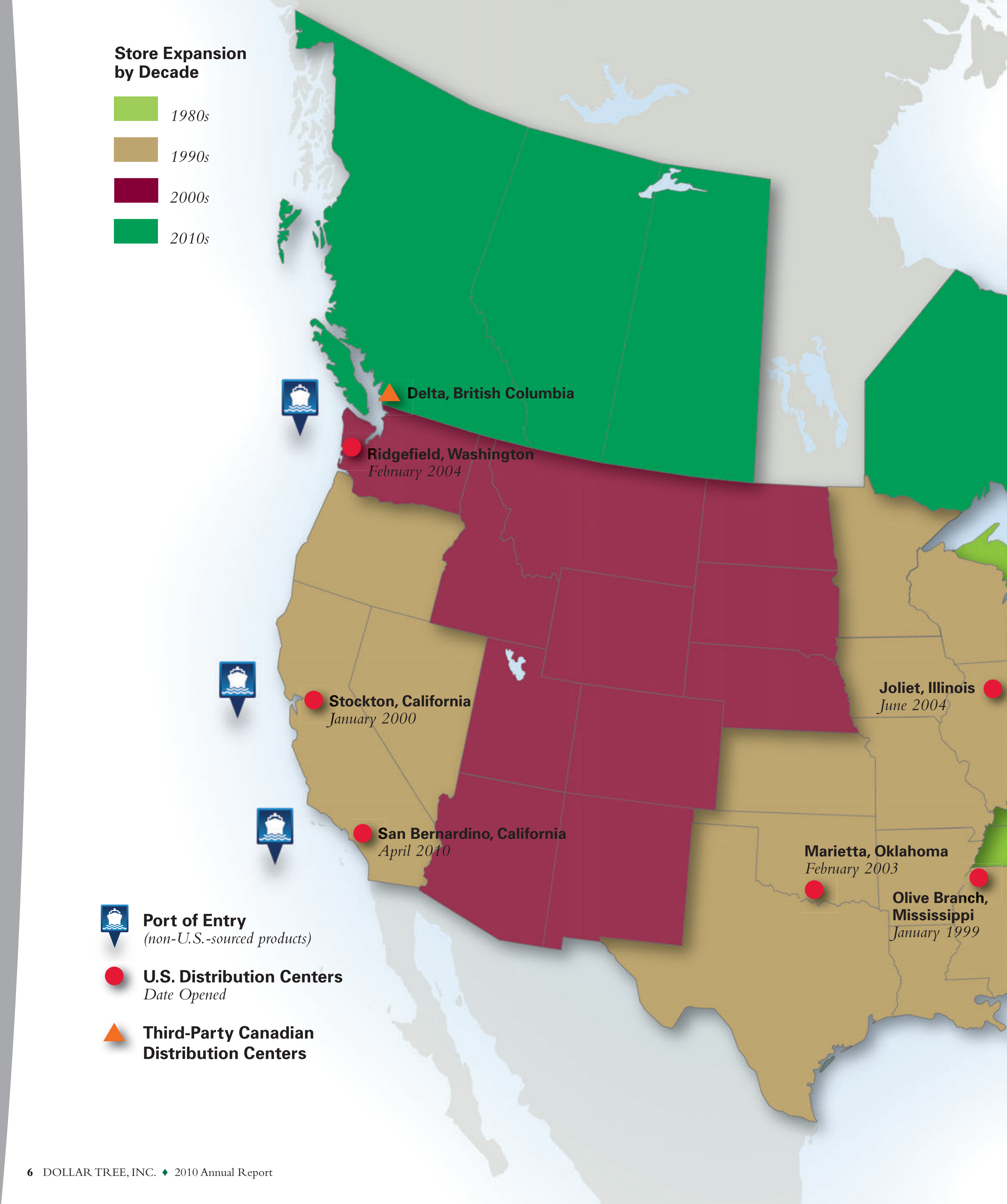
Dollar Tree's values have never been better and our future has never been brighter. As I said last year, thanks and congratulations to every Dollar Tree associate for making 2010 our best year ever – *so far!*

Bob Sasser

Bob Sasser
President and Chief Executive Officer

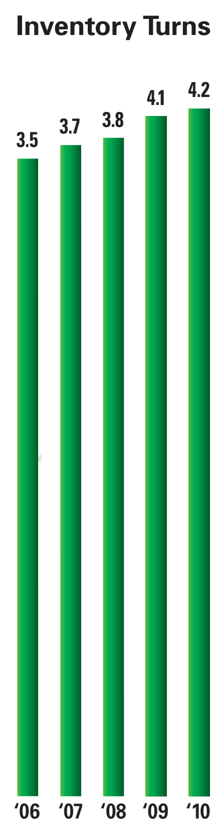
As Dollar Tree celebrates its Silver Anniversary, I am pleased to report that the Company is strong, growing, and our values have never been better.

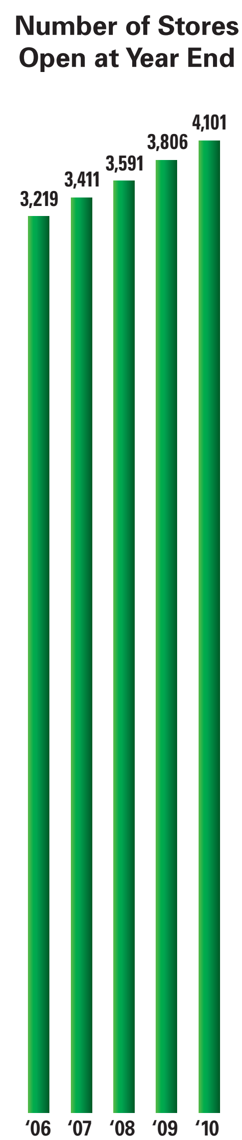
EVER EXPANDING REACH
Stores and Infrastructure



Beginning in 1986 with six stores in two states, Dollar Tree has grown to 4,101 stores across the 48 contiguous United States and four Canadian provinces, supported by a solid and scalable infrastructure, designed to support future growth.

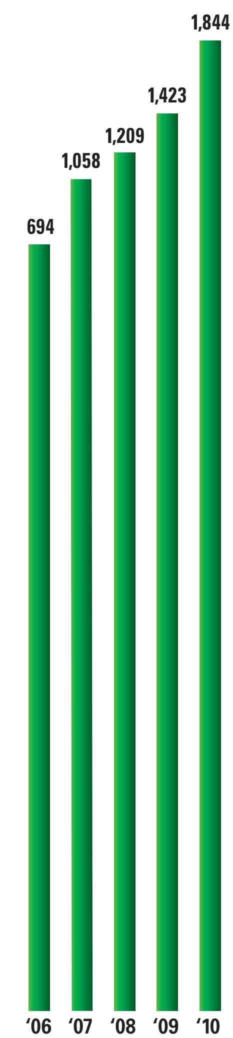
By leveraging our investments in infrastructure, we continue to increase efficiency as our store base grows. Our inventory management and supply chain systems are enabling us to stream-line our supply chain, improve merchandise flow and increase inventory turns.





Frozen and refrigerated products are now available in 45% of our stores. SNAP is accepted in over 86% of our stores in the U.S.A.

Stores with Freezers and Coolers



MORE PRODUCTIVE STORES

Broader Assortments, Merchandise Energy, Surprising Value

In addition to expanding the number of stores, we are working to make each store more productive. This involves rigorous site selection and right-sizing our stores to allow for broader assortments and a convenient shopping trip for our customers. Over the past ten years our average store size has doubled and our assortments have expanded with new categories including frozen and refrigerated products.

Dollar Tree stores offer things you need as well as things 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. It is the one chain that offers these and other items to customers coast-to-coast with each item priced at $1 – or less – every day!

Dollar Tree stores offer an ever-changing assortment of products – each for $1 – and a fun, friendly, convenient shopping experience.

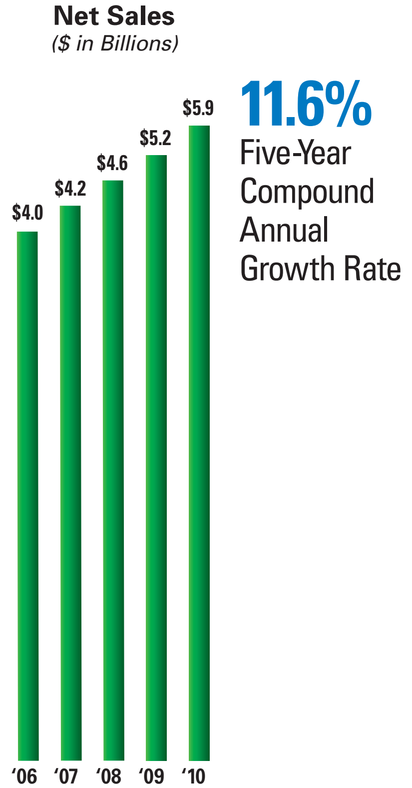
BRANCHING OUT

New Formats, New Markets, New Channels

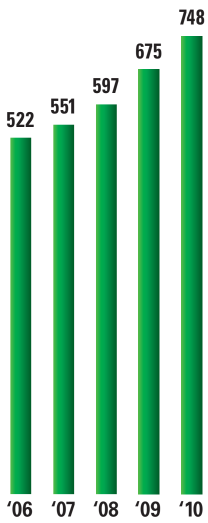
Over our first 25 years, Dollar Tree has consistently re-invented itself. This process is continuing as we strive to grow in size and relevance in the future. In the fourth quarter 2010 we acquired 86 Dollar Giant stores in Canada. This is the first expansion of our retail operations outside the United States. This year we intend to expand the Canadian store count by about 20% and build an infrastructure to support future growth. Over the long term, we believe the Canadian market represents a 900 to 1,000 store opportunity. This is in addition to the 7,000 store potential for Dollar Tree stores in the United States plus additional growth in our Deal$ format.

*Deal$* is our multi-price format. While the majority of the merchandise at Deal$ is focused at $5 and less, customers can also find incredible values on special items at prices above $5. Deal$ continues to gain traction – extending our ability to offer broader assortments, serve more customers and increase our growth potential. We intend to open 35 new Deal$ stores in 2011.

Dollar Tree Direct, our e-commerce business, is an additional channel of distribution to our customers. The website, www.dollartree.com, offers 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, Dollar Tree Direct provides Dollar Tree value and added convenience for our customers.



Customer Transactions
(in Millions)



Through continuous growth and re-invention, Dollar Tree strives to find more ways to provide more value to more customers every day.

BUILDING ON OUR FOUNDATION OF VALUE

Dollar Tree strives to bring value to customers, associates, communities and to our shareholders. For our customers, we focus on running stores that are bright, clean and beautiful, and providing quality merchandise at great values, to help customers stretch their monthly household budgets.

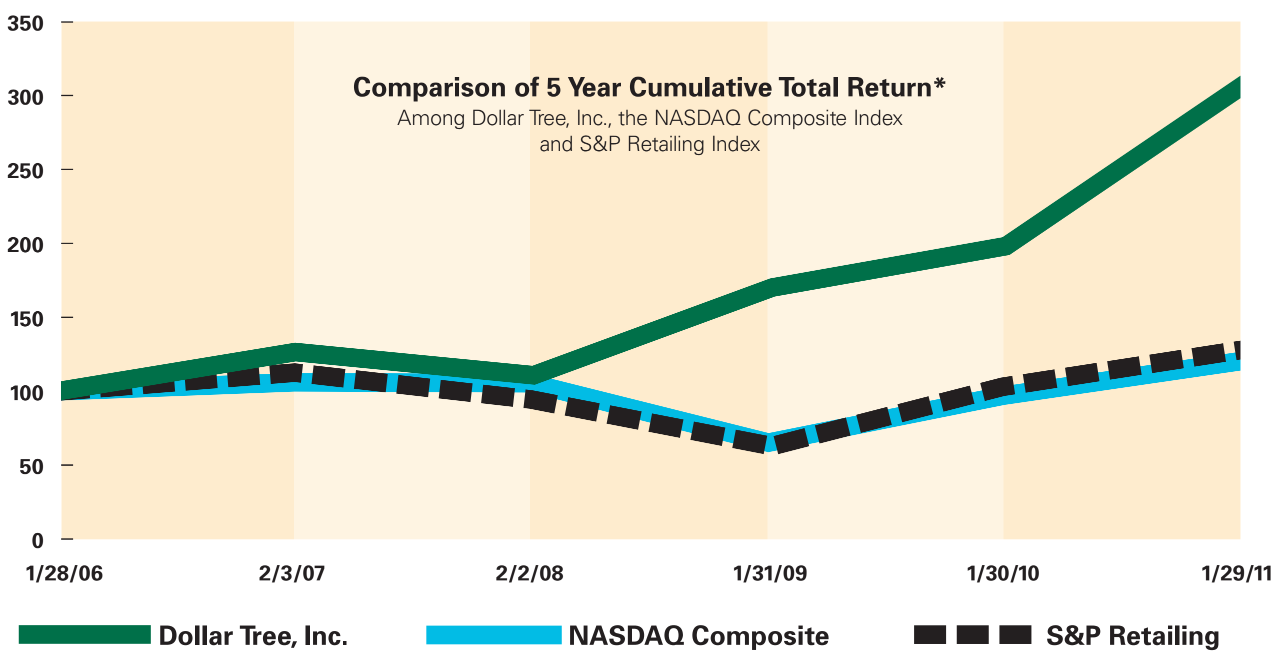
We recognize that none of the Company's goals could be achieved without the combined dedication, talent, creativity and hard work of Dollar Tree associates. We are committed to a culture in which every job is important and each person is treated with respect, where every associate's contributions are valued, employment opportunities expand and where professional development is encouraged. We are committed to finding, developing, and retaining great people.

We bring value to our communities in many ways. Each new store represents an investment in a community. Our stores are attractive, clean and convenient. They average $1.5 million in annual sales and help drive customer traffic to new and existing shopping centers, with more than 185,000 customer visits per average store in 2010. Our store expansion has created thousands of jobs across America. And, we generate millions of dollars in sales tax revenue across the country each year.

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 24 million items have been collected nationwide over the past four years. These items were donated by our customers and distributed at U.S. military bases across the nation.

Dollar Tree is committed to product safety and sustainability. We have a vigorous product testing program for compliance with regulatory requirements and have also implemented product testing protocols that often go beyond those required by law. We are also committed to working on ways to reduce or eliminate the use of PVC in our products and packaging.

We are focused on building value for our long-term shareholders, and 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 $1.6 billion for share repurchase since 2003. These investments demonstrate our commitment to build real value for long-term shareholders and our confidence in the future.



*$100 invested on 1/28/06 in stock or 1/31/06 in index, including reinvestment of dividends.
Indexes calculated on month-end basis.

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 2011 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 net sales per square foot, net sales and operating income of our 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 a later Easter in 2011;
- the effect that expanding tender types accepted by our stores will have on sales;
- 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, and income taxes.

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 17, 2011. 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 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 our sales and profits.
- 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 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 "2011" or "fiscal 2011", "2010" or "fiscal 2010", "2009" or "fiscal 2009", and "2008" or "fiscal 2008", relate to as of or for the years ended January 28, 2012, January 29, 2011, January 30, 2010 and January 31, 2009, 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 2010, 2009 and 2008;
- 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 2010 and 2009 and what we expect them to be in 2011; 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 29, 2011, January 30, 2010 and January 31, 2009. 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 2010 compared to the comparable fiscal year 2009 and the fiscal year 2009 compared to the comparable fiscal year 2008.

Key Events and Recent Developments

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

- On November 15, 2010, we completed our acquisition of 86 Dollar Giant stores, located in the Canadian provinces of British Columbia, Ontario, Alberta and Saskatchewan. These stores offer a wide assortment of quality general merchandise, contemporary seasonal goods and everyday consumables, all priced at $1.25 (CAD) or less. This is our first expansion of retail operations outside of the United States.

- On May 26, 2010, the Company's Board of Directors approved a 3-for-2 stock split in the form of a 50% common stock dividend. New shares were distributed on June 24, 2010 to shareholders of record as of the close of business on June 10, 2010. As a result, all share and per share data in this Annual Report have been retroactively adjusted to reflect this dividend having the effect of a 3-for-2 stock split.
- We assign cost to store inventories using the retail inventory method, determined on a weighted average cost basis. From our inception and through fiscal 2009, we used one inventory pool for this calculation. Because of our investments over the years in our retail technology systems, we were able to refine our estimate of inventory cost under the retail method and 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 recorded a non-recurring, non-cash charge to gross profit and a corresponding reduction in inventory, at cost, of $26.3 million in the first quarter of 2010. This was a prospective change and did 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 during fiscal 2009 and an additional $5.7 million in fiscal 2010. This new distribution center replaced our Salt Lake City, Utah leased facility whose lease ended 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.

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 29, 2011, we operated 4,101 stores in 48 states and the District of Columbia, as well as the Canadian provinces of British Columbia, Ontario, Alberta and Saskatchewan, with 35.1 million selling square feet compared to 3,806 stores with 32.3 million selling square feet at January 30, 2010. During fiscal 2010, we opened 235 stores, expanded 95 stores, acquired 86 stores and closed 26 stores, compared to 240 new stores opened, 75 stores expanded and 25 stores closed during fiscal 2009. In the current year we increased our selling square footage by 8.8%. Of the 2.8 million selling square foot increase in 2010, 0.4 million was added by expanding existing stores and 0.7 million was added with the acquisition of Dollar Giant. The average size of our stores opened in 2010 was approximately 8,400 selling square feet (or about 10,200 gross square feet). For 2011, 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 2010, comparable store net sales increased by 6.3%. The comparable store net sales increase was primarily the result of a 5.0% increase in the number of transactions and a 1.3% increase in average ticket. 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 2010, and we continued the roll-out of frozen and refrigerated merchandise to more of our stores. At January 29, 2011, we had frozen and refrigerated merchandise in approximately 1,840 stores compared to approximately 1,400 stores at January 30, 2010. 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 3,500 qualified stores compared to 2,900 at the end of 2009.

With the pressures of the current economic environment, we have seen increases in the demand for basic, consumable products in 2010. As a result, we have continued to shift 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 10 basis points in 2010.

In 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 through the first half of 2010; however, we 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 as 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. On January 31, 2010, the first day of fiscal 2010, we began using approximately 30 inventory pools in our retail inventory calculation, rather than one inventory pool as we had done since our inception. As a result of this change, we recorded a non-recurring, non-cash charge to gross profit and a corresponding reduction in inventory, at cost, of $26.3 million in the first quarter of 2010.

	Year Ended January 29, 2011	Year Ended January 30, 2010	Year Ended January 31, 2009
Net sales	**100.0%**	100.0%	100.0%
Cost of sales, excluding non-cash beginning inventory adjustment	**64.1%**	64.5%	65.7%
Non-cash beginning inventory adjustment	**0.4%**	0.0%	0.0%
Gross profit	**35.5%**	35.5%	34.3%
Selling, general and administrative expenses	**24.8%**	25.7%	26.4%
Operating income	**10.7%**	9.8%	7.9%
Interest expense, net	**(0.1%)**	(0.1%)	(0.2%)
Other income, net	**0.1%**	—	—
Income before income taxes	**10.7%**	9.7%	7.7%
Provision for income taxes	**(3.9%)**	(3.6%)	(2.8%)
Net income	**6.8%**	6.1%	4.9%

Fiscal year ended January 29, 2011 compared to fiscal year ended January 30, 2010

Net Sales. Net sales increased 12.4%, or $651.2 million, in 2010 compared to 2009, resulting from a 6.3% 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 29, 2011 and January 30, 2010.

	January 29, 2011	January 30, 2010
New stores	**235**	240
Acquired stores	**86**	—
Expanded or relocated stores	**95**	75
Closed stores	**(26)**	(25)

Of the 2.9 million selling square foot increase in 2010 approximately 0.4 million was added by expanding existing stores and 0.7 million was the result of the acquisition of the Dollar Giant stores.

Gross profit margin was 35.5% in 2010 and 2009. Excluding the effect of the $26.3 million non-cash beginning inventory adjustment, gross profit margin increased to 35.9%. This increase was due to the following:

- Occupancy and distribution costs decreased 30 basis points in the current year resulting from the leveraging of the comparable store sales increase.
- Shrink costs decreased 15 basis points due to improved shrink results in the current year and a lower shrink accrual rate during fiscal 2010 compared to fiscal 2009.
- Merchandise costs, including freight, increased 15 basis points due primarily to higher import and domestic freight costs during fiscal 2010 compared to fiscal 2009.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, as a percentage of net sales, decreased to 24.8% for 2010 compared to 25.7% for 2009. The decrease is primarily due to the following:

- Payroll expenses decreased 45 basis points due to leveraging associated with the increase in comparable store net sales in the current year and lower store hourly payroll.
- Depreciation decreased 30 basis points primarily due to the leveraging associated with the increase in comparable store net sales in the current year.
- Store operating costs decreased 20 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 2010.

Operating Income. Operating income margin was 10.7% in 2010 compared to 9.8% in 2009. Excluding the $26.3 million non-cash adjustment to beginning inventory, operating income margin was 11.1% due to the reasons discussed above.

Income Taxes. Our effective tax rate was 36.9% in 2010 and 2009.

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.

Liquidity and Capital Resources

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

The following table compares cash-flow related information for the years ended January 29, 2011, January 30, 2010 and January 31, 2009:

(in millions)	**Year Ended January 29, 2011**	Year Ended January 30, 2010	Year Ended January 31, 2009
Net cash provided by (used in):			
Operating activities	**$ 518.7**	$ 581.0	$ 403.1
Investing activities	**(374.1)**	(212.5)	(102.0)
Financing activities	**(404.3)**	(161.3)	22.7

Net cash provided by operating activities decreased $62.3 million in 2010 compared to 2009 due to an increase in cash used to purchase merchandise inventories partially offset by increased earnings before income taxes, depreciation and amortization in the current year.

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 2009. 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 used in investing activities increased $161.6 million in the current year primarily due to short-term investment activity and the Dollar Giant acquisition. In 2010 we purchased $157.8 million of short-term investments compared to $27.8 million in 2009. This was partially offset by an increase in proceeds from the sales of short-term investments of $10.8 million in the current year.

Net cash used in investing activities increased $110.5 million in 2009 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. Capital expenditures increased $33.5 million in 2009 primarily due to the purchase of our new distribution center in San Bernardino, CA.

In 2010, net cash used in financing activities increased $243.0 million as a result of increased share repurchases in 2010 and repayments of $13.8 million for debt acquired from Dollar Giant.

In 2009, net cash used in financing activities increased $184.0 million as the result of share repurchases in 2009. There were no share repurchases in 2008.

At January 29, 2011, our long-term borrowings were $266.5 million and our capital lease commitments were $1.4 million. We also have $121.5 million and $50.0 million Letter of Credit Reimbursement and Security Agreements, under which approximately $106.9 million were committed to letters of credit issued for routine purchases of imported merchandise at January 29, 2011.

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 29, 2011, 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 9.3 million shares for approximately $414.7 million in fiscal 2010. 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 were accrued in the accompanying consolidated balance sheet as of January 30, 2010. We had no share repurchases in fiscal 2008. At January 29, 2011, we have approximately $345.9 million remaining under Board authorization.

Funding Requirements

Overview

We expect our cash needs for opening new stores and expanding existing stores in fiscal 2011 to total approximately $144.4 million, which includes capital expenditures, initial inventory and pre-opening costs. Our estimated capital expenditures for fiscal 2011 are between $215.0 and $225.0 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.

The following tables summarize our material contractual obligations at January 29, 2011, including both on- and off-balance sheet arrangements, and our commitments, including interest on long-term borrowings (in millions):

Contractual Obligations	Total	2011	2012	2013	2014	2015	Thereafter
Lease Financing							
Operating lease obligations	$ 1,703.4	$ 415.7	$ 365.5	$ 298.0	$ 234.0	$ 161.9	$ 228.3
Capital lease obligations	1.4	0.9	0.4	0.1	—	—	—
Long-term Borrowings							
Credit Agreement	250.0	—	—	250.0	—	—	—
Revenue bond financing	16.5	16.5	—	—	—	—	—
Interest on long-term borrowings	4.0	1.9	1.9	0.2	—	—	—
Total obligations	$ 1,975.3	$ 435.0	$ 367.8	$ 548.3	$ 234.0	$ 161.9	$ 228.3

Commitments	Total	Expiring in 2011	Expiring in 2012	Expiring in 2013	Expiring in 2014	Expiring in 2015	Thereafter
Letters of credit and surety bonds	$ 122.6	$ 122.6	$ —	$ —	$ —	$ —	$ —
Freight contracts	288.8	113.0	113.0	46.7	16.1	—	—
Technology assets	5.9	5.9	—	—	—	—	—
Total commitments	$ 417.3	$ 241.5	$ 113.0	$ 46.7	$ 16.1	$ —	$ —

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 29, 2011 for stores that were not yet open on January 29, 2011.

Long-term Borrowings

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 0.76% at January 29, 2011. 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 29, 2011, 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 29, 2011, the balance outstanding on the bonds was $16.5 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 0.30% at January 29, 2011.

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 29, 2011.

Commitments

Letters of Credit and Surety Bonds. We are a party to two Letter of Credit Reimbursement and Security Agreements, one which provides $121.5 million for letters of credit and one 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 $106.9 million of purchases committed under these letters of credit at January 29, 2011.

We also have approximately $13.1 million of letters of credit and $2.5 million of 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 2014. The total amount of these commitments is approximately $288.8 million.

Technology Assets. We have commitments totaling approximately $5.9 million to primarily purchase store technology assets for our stores during 2011.

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 2010, we entered into fuel derivative contracts with third parties which included approximately 0.6 million gallons of diesel fuel, or approximately 20% of our fuel needs from February 2011 through April 2011. These derivative contracts do not qualify for hedge accounting and therefore all changes in fair value for these derivatives are included in earnings.

In March 2011, we entered into fuel derivative contracts for approximately 2.8 million gallons of diesel fuel, or approximately 50% of our fuel needs from August 2011 through January 2012.

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. From our inception and through fiscal 2009, we used one inventory pool for this calculation. Because of our investments over the years in our retail technology systems, we were able to refine our estimate of inventory cost under the retail method and 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 recorded a non-recurring, non-cash charge to gross profit and a corresponding reduction in inventory, at cost, of approximately $26.3 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 and business trends. 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 29, 2011 is based on estimated shrink for most of 2010, 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 2010, 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 April 12, 2009, April 4, 2010, and will be observed on April 24, 2011. We believe that the later Easter in 2011 could result in a $15.0 million increase in sales in the first quarter of 2011 as compared to the first quarter of 2010. 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 2011, as we are in the early stages of our negotiations.

Minimum Wage. In 2007, legislation was enacted that increased the Federal Minimum Wage from $5.15 an hour to $7.25 an hour over a two year period with the final increase being enacted in July 2009. As a result, our wages increased in 2009 and through the first half of 2010; however, we 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 29, 2011:

Hedging Instrument	Receive Variable	Pay Fixed	Expiration	Fair Value (Liability)
Two $75.0 million interest rate swaps	LIBOR	2.80%	3/31/11	($0.6 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 independent pricing services reflecting broker market quotes.

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 third parties which included approximately 0.6 million gallons of diesel fuel, or approximately 20% of the our fuel needs from February 2011 through April 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 are included in earnings. The fair value of these contracts at January 29, 2011 was an asset of $0.2 million. In March 2011, we entered into fuel derivative contracts for approximately 2.8 million gallons of diesel fuel, or approximately 50% of our fuel needs from August 2011 through January 2012.

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 29, 2011 and January 30, 2010, 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 29, 2011. 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 29, 2011 and January 30, 2010, and the results of their operations and their cash flows for each of the years in the three year period ended January 29, 2011, 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 29, 2011, 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 17, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Norfolk, Virginia
March 17, 2011

Consolidated Statements Of Operations

(in millions, except per share data)	**Year Ended January 29, 2011**	Year Ended January 30, 2010	Year Ended January 31, 2009
Net sales	**$ 5,882.4**	$ 5,231.2	$ 4,644.9
Cost of sales, excluding non-cash beginning inventory adjustment	**3,768.5**	3,374.4	3,052.7
Non-cash beginning inventory adjustment	**26.3**	—	—
Gross profit	**2,087.6**	1,856.8	1,592.2
Selling, general and administrative expenses	**1,457.6**	1,344.0	1,226.4
Operating income	**630.0**	512.8	365.8
Interest expense, net	**5.6**	5.2	6.7
Other income, net	**(5.5)**	—	—
Income before income taxes	**629.9**	507.6	359.1
Provision for income taxes	**232.6**	187.1	129.6
Net income	**$ 397.3**	$ 320.5	$ 229.5
Basic net income per share	**$ 3.13**	$ 2.39	$ 1.69
Diluted net income per share	**$ 3.10**	$ 2.37	$ 1.69

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(in millions, except share and per share data)	**January 29, 2011**	January 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 311.2**	$ 571.6
Short-term investments	**174.8**	27.8
Merchandise inventories	**803.1**	679.8
Deferred tax assets	**16.3**	6.2
Prepaid expenses and other current assets	**27.9**	20.2
Total current assets	**1,333.3**	1,305.6
Property, plant and equipment, net	**741.1**	714.3
Goodwill	**173.1**	133.3
Deferred tax assets	**38.0**	35.0
Other assets, net	**95.0**	101.5
TOTAL ASSETS	**$ 2,380.5**	$ 2,289.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	**$ 16.5**	$ 17.5
Accounts payable	**261.4**	219.9
Other current liabilities	**190.5**	189.9
Income taxes payable	**64.4**	48.6
Total current liabilities	**532.8**	475.9
Long-term debt, excluding current portion	**250.0**	250.0
Income taxes payable, long-term	**15.2**	14.4
Other liabilities	**123.5**	120.2
Total liabilities	**921.5**	860.5
Commitments and contingencies		
Shareholders' equity:		
Common stock, par value $0.01. 400,000,000 shares authorized, 123,393,816 and 131,284,455 shares issued and outstanding at January 29, 2011 and January 30, 2010, respectively	**1.2**	0.9
Additional paid-in capital	**—**	—
Accumulated other comprehensive income (loss)	**(0.4)**	(2.4)
Retained earnings	**1,458.2**	1,430.7
Total shareholders' equity	**1,459.0**	1,429.2
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 2,380.5**	$ 2,289.7

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Years Ended January 29, 2011, January 30, 2010, And January 31, 2009

(in millions)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Shareholders' Equity
Balance at February 2, 2008	134.7	$ 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	0.2	—	3.6	—	—	3.6
Exercise of stock options, including income tax benefit of $2.3	1.0	—	20.3	—	—	20.3
Stock-based compensation, net	0.2	—	14.1	—	—	14.1
Balance at January 31, 2009	136.1	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, net of income tax expense of $0.1	—	—	—	0.2	—	0.2
Total comprehensive income						320.7
Issuance of stock under Employee Stock Purchase Plan	0.2	—	1.4	—	3.1	4.5
Exercise of stock options, including income tax benefit of $2.0	1.1	—	8.7	—	14.8	23.5
Repurchase and retirement of shares	(6.4)	—	(48.9)	—	(144.2)	(193.1)
Stock-based compensation, net, including income tax benefit of $1.9	0.3	—	0.8	—	19.6	20.4
Balance at January 30, 2010	131.3	0.9	—	(2.4)	1,430.7	1,429.2
Net income for the year ended January 29, 2011	—	—	—	—	397.3	397.3
Other comprehensive income, net of income tax benefit of $1.3	—	—	—	2.0	—	2.0
Total comprehensive income						399.3
Transfer from additional paid-in capital for Common Stock dividend	—	0.4	(0.4)	—	—	—
Payment for fractional shares resulting from Common Stock dividend	—	—	(0.3)	—	—	(0.3)
Issuance of stock under Employee Stock Purchase Plan	0.1	—	4.4	—	—	4.4
Exercise of stock options, including income tax benefit of $1.9	0.8	—	17.9	—	—	17.9
Repurchase and retirement of shares	(9.3)	(0.1)	(44.8)	—	(369.8)	(414.7)
Stock-based compensation, net, including tax benefit of $5.9	0.5	—	23.2	—	—	23.2
Balance at January 29, 2011	**123.4**	**$ 1.2**	**$ —**	**$ (0.4)**	**$1,458.2**	**$1,459.0**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(in millions)	**Year Ended January 29, 2011**	Year Ended January 30, 2010	Year Ended January 31, 2009
Cash flows from operating activities:			
Net income	**$ 397.3**	$ 320.5	$ 229.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**159.7**	157.8	161.7
Provision for deferred income taxes	**(14.4)**	(0.6)	17.0
Stock-based compensation expense	**28.3**	21.7	16.7
Non-cash adjustment to beginning inventory	**26.3**	—	—
Other non-cash adjustments to net income	**5.0**	6.8	7.9
Changes in assets and liabilities increasing (decreasing) cash and cash equivalents:			
Merchandise inventories	**(126.7)**	(4.0)	(34.6)
Other assets	**2.0**	5.8	27.3
Accounts payable	**28.1**	27.0	(7.5)
Income taxes payable	**15.2**	2.0	(36.8)
Other current liabilities	**(9.2)**	30.5	6.1
Other liabilities	**7.1**	13.5	15.8
Net cash provided by operating activities	**518.7**	581.0	403.1
Cash flows from investing activities:			
Capital expenditures	**(178.7)**	(164.8)	(131.3)
Purchase of short-term investments	**(157.8)**	(27.8)	(34.7)
Proceeds from sale of short-term investments	**10.8**	—	75.2
Purchase of restricted investments	**(50.9)**	(37.3)	(29.0)
Proceeds from sale of restricted investments	**52.1**	17.4	18.2
Acquisition of Dollar Giant, net of cash acquired of $1.9 million	**(49.4)**	—	—
Acquisition of favorable lease rights	**(0.2)**	—	(0.4)
Net cash used in investing activities	**(374.1)**	(212.5)	(102.0)
Cash flows from financing activities:			
Principal payments under long-term debt and capital lease obligations	**(15.1)**	(0.4)	(1.2)
Payments for share repurchases	**(417.1)**	(190.7)	—
Proceeds from stock issued pursuant to stock-based compensation plans	**20.1**	25.9	21.6
Tax benefit of exercises/vesting of equity-based compensation	**7.8**	3.9	2.3
Net cash provided by (used in) financing activities	**(404.3)**	(161.3)	22.7
Effect of exchange rate changes on cash and cash equivalents	**(0.7)**	—	—
Net increase (decrease) in cash and cash equivalents	**(260.4)**	207.2	323.8
Cash and cash equivalents at beginning of year	**571.6**	364.4	40.6
Cash and cash equivalents at end of year	**$ 311.2**	$ 571.6	$ 364.4
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	**$ 6.5**	$ 7.1	$ 9.7
Income taxes	**$ 223.7**	$ 183.5	$ 140.4

See accompanying Notes to Consolidated Financial Statements.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Dollar Tree, Inc. (the Company) is the leading operator of discount variety retail stores offering merchandise at the fixed price of $1.00 or less and operated 4,101 discount variety retail stores in the United States and Canada at January 29, 2011. Below are those accounting policies considered by the Company to be significant.

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.

Foreign Currency

The functional currencies of the Company's international subsidiaries are primarily the local currencies of the countries in which the subsidiaries are located. Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the consolidated balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of shareholders' equity in accumulated other comprehensive income (loss). Gains and losses from foreign currency transactions, which are included in non-operating income (expense), have not been significant.

Stock Dividend

On May 26, 2010, the Company's Board of Directors approved a 3-for-2 stock split in the form of a 50% common stock dividend. New shares were distributed on June 24, 2010 to shareholders of record as of the close of business on June 10, 2010. As a result, all share and per share data in these consolidated financial statements and accompanying notes have been retroactively adjusted to reflect these dividends, each having the effect of a 3-for-2 stock split.

Segment Information

The Company's retail stores represent a single operating segment based on the way the Company manages its business. Operating decisions are made at the Company level in order to maintain a consistent retail store presentation. The Company's retail stores sell similar products and services, use similar processes to sell those products and services, and sell their products and services to similar classes of customers. The amounts of long-lived assets and net sales outside of the U.S. were not significant for any of the periods presented.

Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. Any reference herein to "2010" or "Fiscal 2010," "2009" or "Fiscal 2009," and "2008" or "Fiscal 2008," relates to as of or for the years ended January 29, 2011, January 30, 2010, and January 31, 2009, 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 29, 2011 and January 30, 2010 includes $271.4 million and $506.8 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 29, 2011 and January 30, 2010 were $174.8 million and $27.8 million, respectively. 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 Company's 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 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. From our inception through fiscal 2009, the Company used one inventory pool for this calculation. Because of investments over the years in retail technology systems, the Company has been able to refine the estimate of inventory cost under the retail method. On January 31, 2010, the first day of fiscal 2010, the Company began using approximately thirty inventory pools in its retail inventory calculation. As a result of this change, the Company recorded a non-recurring, non-cash charge to gross profit and a corresponding reduction in inventory, at cost, of approximately $26.3 million in the first quarter of 2010. This was a prospective change and did not have any effect on prior periods. This change in estimate to include thirty inventory pools in the retail method calculation is preferable to using one pool in the calculation as it gives the Company a more accurate estimate of cost of store level inventories.

Costs directly associated with warehousing and distribution are capitalized as merchandise inventories. Total warehousing and distribution costs capitalized into inventory amounted to $30.8 million and $27.4 million at January 29, 2011 and January 30, 2010, 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 2010 and determined that no impairment loss existed.

Other Assets, Net

Other assets, net consists primarily of restricted investments and intangible assets. Restricted investments were $72.1 million and $78.4 million at January 29, 2011 and January 30, 2010, 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 2010, 2009 and 2008, the Company recorded charges of $1.1 million, $1.3 million and $1.2 million, respectively, to write down certain assets. These charges are recorded as a component of "selling, general and administrative expenses" in the accompanying consolidated statements of operations.

Financial Instruments

The Company utilizes derivative financial instruments to reduce its exposure to market risks from changes in interest rates 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 but minimizes this risk by entering into transactions with high quality counterparties. 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". 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 values of these diesel fuel swaps are recorded in the accompanying consolidated balance sheets as a component of "other current assets".

Fair Value Measurements

In 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 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 or 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 29, 2011. 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 $311.2 million, $174.8 million and $72.1 million, respectively at January 29, 2011. These fair values were determined using Level 1 measurements in the fair value hierarchy. The fair value of the interest rate swap as of January 29, 2011 was a liability of $0.6 million, while the fair value of the diesel fuel swap was an asset of $0.2 million as of January 29, 2011. 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 rate varies 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 $1.1 million in fiscal 2010 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.

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 $11.1 million, $8.3 million and $6.6 million for the years ended January 29, 2011, January 30, 2010, and January 31, 2009, 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 2010, 2009 and 2008 was $27.9 million, $21.7 million and $16.7 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 29, 2011 and January 30, 2010 consists of the following:

(in millions)	**January 29, 2011**	January 30, 2010
Land	**$ 35.1**	$ 29.4
Buildings	**192.3**	180.2
Leasehold improvements	**706.3**	634.2
Furniture, fixtures and equipment	**980.9**	895.5
Construction in progress	**30.8**	55.5
Total property, plant and equipment	**1,945.4**	1,794.8
Less: accumulated depreciation	**1,204.3**	1,080.5
Total property, plant and equipment, net	**$ 741.1**	$ 714.3

Depreciation expense was $159.7 million, $157.8 million and $161.1 million for the years ended January 29, 2011, January 30, 2010, and January 31, 2009, respectively.

Other Current Liabilities

Other current liabilities as of January 29, 2011 and January 30, 2010 consist of accrued expenses for the following:

(in millions)	**January 29, 2011**	January 30, 2010
Compensation and benefits	**$ 76.5**	$ 71.3
Taxes (other than income taxes)	**21.2**	26.7
Insurance	**29.7**	27.4
Other	**63.1**	64.5
Total other current liabilities	**$ 190.5**	$ 189.9

Other Long-Term Liabilities

Other long-term liabilities as of January 29, 2011 and January 30, 2010 consist of the following:

(in millions)	**January 29, 2011**	January 30, 2010
Deferred rent	**$ 73.0**	$ 69.3
Insurance	**39.9**	38.5
Other	**10.6**	12.4
Total other long-term liabilities	**$ 123.5**	$ 120.2

NOTE 3—INCOME TAXES

Total income taxes were allocated as follows:

(in millions)	**Year Ended January 29, 2011**	Year Ended January 30, 2010	Year Ended January 31, 2009
Income from continuing operations	**$ 232.6**	$ 187.1	$ 129.6
Accumulated other comprehensive income(loss) marking derivative financial instruments to fair value	**1.3**	0.1	(1.7)
Stockholders' equity, tax benefit on exercises/vesting of equity-based compensation	**(7.8)**	(3.9)	(2.3)
	$ 226.1	$ 183.3	$ 125.6

The provision for income taxes consists of the following:

(in millions)	**Year Ended January 29, 2011**	Year Ended January 30, 2010	Year Ended January 31, 2009
Federal - current	**$ 215.7**	$ 160.2	$ 91.9
State - current	**31.3**	27.5	20.7
Total current	**247.0**	187.7	112.6
Federal - deferred	**(10.0)**	(0.4)	15.4
State - deferred	**(4.4)**	(0.2)	1.6
Total deferred	**(14.4)**	(0.6)	17.0
Provision for income taxes	**$ 232.6**	$ 187.1	$ 129.6

Included in current tax expense for the years ended January 29, 2011, January 30, 2010 and January 31, 2009, are amounts related to changes in uncertain tax positions associated with temporary differences.

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

	Year Ended January 29, 2011	Year Ended January 30, 2010	Year Ended January 31, 2009
Statutory tax rate	**35.0%**	35.0%	35.0%
Effect of:			
State and local income taxes, net of federal income tax benefit	**3.4**	3.3	3.0
Other, net	**(1.5)**	(1.4)	(1.9)
Effective tax rate	**36.9%**	36.9%	36.1%

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) follow:

(in millions)	**January 29, 2011**	January 30, 2010
Deferred tax assets:		
Deferred rent	**$ 31.4**	$ 23.0
Accrued expenses	**25.4**	24.8
Property and equipment	—	4.3
State tax net operating losses and credit carryforwards, net of federal benefit	**6.4**	6.7
Accrued compensation expense	**22.5**	22.2
Other	**1.9**	2.0
Total deferred tax assets	**87.6**	83.0
Valuation allowance	**(4.8)**	(6.1)
Deferred tax assets, net	**82.8**	76.9
Deferred tax liabilities:		
Property and equipment	**(4.6)**	—
Goodwill	**(15.8)**	(15.1)
Prepaid expenses	**(3.8)**	(7.0)
Inventory	**(4.3)**	(13.6)
Total deferred tax liabilities	**(28.5)**	(35.7)
Net deferred tax asset	**$ 54.3**	$ 41.2

A valuation allowance of $4.8 million, net of Federal tax benefits, has been provided principally for certain state credit carryforwards and net operating loss carryforwards. 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.

The company is participating in the Internal Revenue Service ("IRS") Compliance Assurance Program ("CAP") for the 2010 tax year and will participate for 2011. 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 our fiscal 2009 tax year. In addition, several states completed their examination during fiscal 2010. In general, fiscal years 2007 and forward are within the statute of limitations for state tax purposes. The statute of limitations is still open prior to 2007 for some states.

The balance for unrecognized tax benefits at January 29, 2011, was $15.2 million. The total amount of unrecognized tax benefits at January 29, 2011, that, if recognized, would affect the effective tax rate was $10.1 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 29, 2011:

	(in millions)
Balance at January 30, 2010	$ 14.4
Additions, based on tax positions related to current year	0.7
Additions for tax positions of prior years	1.0
Reductions for tax positions of prior years	(0.1)
Settlements	(0.4)
Lapses in statute of limitations	(0.4)
Balance at January 29, 2011	$ 15.2

During fiscal 2010, the Company accrued potential interest of $0.7 million, related to these unrecognized tax benefits. No potential penalties were accrued during 2010 related to the unrecognized tax benefits. As of January 29, 2011, the Company has recorded a liability for potential penalties and interest of $0.1 million and $3.7 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 the resolution of these audits.

NOTE 4—COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

Future minimum lease payments under noncancelable store operating leases are as follows:

	(in millions)
2011	$ 415.7
2012	365.5
2013	298.0
2014	234.0
2015	161.9
Thereafter	228.3
Total minimum lease payments	$ 1,703.4

The above future minimum lease payments include amounts for leases that were signed prior to January 29, 2011 for stores that were not open as of January 29, 2011.

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 $1.8 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 29, 2011**	Year Ended January 30, 2010	Year Ended January 31, 2009
Minimum rentals	**$ 381.5**	$ 349.9	$ 323.9
Contingent rentals	**1.4**	1.0	(0.3)

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 29, 2011, January 30, 2010, and January 31, 2009, 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 2014. The total amount of these commitments is approximately $288.8 million, of which approximately $113.0 million is committed in 2011 and in 2012, $46.7 million is committed in 2013 and $16.1 million is committed in 2014.

Technology Assets

The Company has commitments totaling approximately $5.9 million to purchase primarily store technology assets for its stores during 2011.

Letters of Credit

The Company is a party to two Letter of Credit Reimbursement and Security Agreements providing $121.5 million and $50.0 million, respectively for letters of credit. Letters of credit under both of these agreements are generally issued for the routine purchase of imported merchandise and approximately $106.9 million was committed to these letters of credit at January 29, 2011. As discussed in Note 5, the Company also has $150.0 million of available letters of credit included in the $550.0 million Unsecured Credit Agreement (the Agreement) entered into in 2008. As of January 29, 2011, there were no letters of credit committed under the Agreement.

The Company also has approximately $13.1 million in stand-by letters of credit that serve as collateral for its self-insurance programs and expire in fiscal 2011.

Surety Bonds

The Company has issued various surety bonds that primarily serve as collateral for utility payments at the Company's stores. The total amount of the commitment is approximately $2.5 million, which is committed through various dates through fiscal 2012.

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 nationwide (except California) notice to be sent to all store managers employed for the three years immediately preceding the filing of the suit. Approximately 265 individuals are included in the collective action. The Court on its own motion continued the case from its previously scheduled July 2010 trial date. The Company's motion to decertify the collective action has been dismissed without prejudice to refile at a later date. Additional discovery, pursuant to the Court's direction, is presently ongoing. There is no scheduled trial date. The Company will continue to vigorously defend 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 184 individuals remains. The Company filed a motion to decertify the class which was both granted and denied in part. The current class was redefined by the Court in its ruling which resulted in a significant reduction in the number of class members. The Court on its own continued a previously scheduled March 2011 trial date. A pretrial conference has been set for June 2011 at which time a new trial date will be established. It is anticipated the case will go to trial in calendar year 2011. 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 363 opt-in plaintiffs. The Company expects that the Court will rule upon a motion by the Company to decertify the collective action later in 2011. 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. On March 11, 2010, the case was dismissed with prejudice. Plaintiffs then filed a motion requesting the Court to alter, amend and vacate its dismissal Order which the trial Court denied. Plaintiffs have filed an appeal to the U.S. Court of Appeals for the Fourth Circuit. It is anticipated the Court will hand down a decision in 2011.

In 2010, two former assistant store managers filed a collective action against the Company in a Florida federal court. Their amended claim is that they were required to work off the clock without compensation in violation of the Fair Labor Standards Act. An additional 22 party plaintiffs have joined the suit. The Company's motion to transfer venue to the U.S. District Court for the Eastern District of Virginia was recently overruled without prejudice pending future case developments. There is no trial date. The Company will continue to vigorously defend itself in this matter.

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 29, 2011 and January 30, 2010 consists of the following:

(in millions)	**January 29, 2011**	January 30, 2010
$550.0 million Unsecured Credit Agreement, interest payable monthly at LIBOR, plus 0.50%, which was 0.76% at January 29, 2011, principal payable upon expiration of the facility in February 2013	**$ 250.0**	$ 250.0
Demand Revenue Bonds, interest payable monthly at a variable rate which was 0.30% at January 29, 2011, principal payable on demand, maturing June 2018	**16.5**	17.5
Total long-term debt	**$ 266.5**	$ 267.5
Less current portion	**16.5**	17.5
Long-term debt, excluding current portion	**$ 250.0**	$ 250.0

Maturities of long-term debt are as follows: 2011 – $16.5 million and 2013 – $250.0 million.

Unsecured Credit Agreement

In 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 29, 2011, the Company 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

In 1998, the Company entered into an unsecured Loan Agreement with the Mississippi Business Finance Corporation (MBFC) under which the MBFC issued Taxable Variable Rate Demand Revenue Bonds (the Bonds) in an aggregate principal amount of $19.0 million to finance the acquisition, construction, and installation of land, buildings, machinery and equipment for the Company's distribution facility in Olive Branch, Mississippi. The Bonds 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

In 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 29, 2011 was a liability of $0.6 million.

In order to manage fluctuations in cash flows resulting from changes in diesel fuel costs, the Company entered into fuel derivative contracts with third parties in 2009 and 2010 for 2.1 million gallons of diesel fuel, or approximately 65% of the Company's fuel needs from November 2010 through January 2011 and approximately 0.6 million gallons of diesel fuel, or approximately 20% of the Company's fuel needs from February 2011 through April 2011. Under these contracts, the Company pays the third party a fixed price for diesel fuel and receives variable diesel fuel prices at amounts approximating current diesel fuel costs, thereby creating the economic equivalent of a fixed-rate obligation. These derivative contracts do not qualify for hedge accounting and therefore all changes in fair value for these derivatives are included in earnings. The fair value of these contracts at January 29, 2011 was an asset of $0.2 million. In March 2011, the Company entered into fuel derivative contracts for approximately 2.8 million gallons of diesel fuel, or approximately 50% of the Company's fuel needs from August 2011 through January 2012.

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 29, 2011 and January 30, 2010.

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 29, 2011**	Year Ended January 30, 2010	Year Ended January 31, 2009
Basic net income per share:			
Net income	**$ 397.3**	$ 320.5	$ 229.5
Weighted average number of shares outstanding	**127.1**	134.1	135.4
Basic net income per share	**$ 3.13**	$ 2.39	$ 1.69
Diluted net income per share:			
Net income	**$ 397.3**	$ 320.5	$ 229.5
Weighted average number of shares outstanding	**127.1**	134.1	135.4
Dilutive effect of stock options and restricted stock (as determined by applying the treasury stock method)	**0.9**	0.9	0.7
Weighted average number of shares and dilutive potential shares outstanding	**128.0**	135.0	136.1
Diluted net income per share	**$ 3.10**	$ 2.37	$ 1.69

At January 29, 2011 substantially all of the stock options outstanding were included in the calculation of the weighted average number of shares and dilutive potential shares outstanding. At January 30, 2010 and January 31, 2009, less than 0.1 million and 0.7 million stock options, respectively are not included in the calculation of the weighted average number of shares and dilutive potential shares outstanding because their effects would be anti-dilutive.

Share Repurchase Programs

The Company repurchased approximately 4.3 million shares for approximately $214.7 million in fiscal 2010. The Company repurchased approximately 6.4 million shares for approximately $193.1 million in fiscal 2009. The Company had no share repurchases in fiscal 2008. At January 29, 2011, the Company had approximately $345.9 million remaining under Board authorization.

On March 19, 2010, the Company entered into an agreement to repurchase $200.0 million of the Company's common shares under an Accelerated Share Repurchase Agreement (ASR). The entire $200.0 million was subject to a "collar" agreement. Under this agreement, the Company initially received 4.6 million shares through March 31, 2010, 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 5.2 million. The number of shares was determined based on the weighted average market price of the Company's common stock, less a discount, during a specified period of time. The repurchase period ranged from one and one-half to four months following the two week maximum hedge completion period. The ASR concluded on August 6, 2010 and the weighted average market price through August 6, 2010 as defined in the "collared" agreement was $41.41. Therefore, on August 6, 2010, the Company received an additional 0.4 million shares under the "collared" agreement resulting in 5.0 million total shares being repurchased under the ASR.

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 29, 2011	**$35.1 million**
Year Ended January 30, 2010	30.4 million
Year Ended January 31, 2009	21.6 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 $2.8 million and $1.8 million, respectively, at January 29, 2011 and January 30, 2010, 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 29, 2011, January 30, 2010, or January 31, 2009.

NOTE 9—STOCK-BASED COMPENSATION PLANS

At January 29, 2011, 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 1,570,896 shares of Common Stock in 1993 and 1,572,434 shares in 1994. Options granted under the SOP have an exercise price of $0.57 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 18.9 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 9.0 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 closing market price of the Company's stock on 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 closing market price of a share of the Company's common stock on the date of deferral. The number of options issued to a director will equal the deferred fee amount divided by 33% of the price of a share of the Company's common stock. The exercise price will equal the fair market value of the Company's common stock at the date the option is issued. The options are fully vested when issued and have a term of 10 years.

Restricted Stock

The Company granted 0.6 million, 0.6 million and 0.5 million service-based RSUs, net of forfeitures in 2010, 2009 and 2008, 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 $17.3 million, $12.8 million and $9.5 million of expense related to these RSUs during 2010, 2009 and 2008. As of January 29, 2011, there was approximately $23.1 million of total unrecognized compensation expense related to these RSUs which is expected to be recognized over a weighted-average period of 22 months.

In 2010, 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 2010 and future service of these officers through fiscal 2011. The Company met these performance targets in fiscal 2010; therefore, the fair value of these RSUs of $7.8 million is being expensed over the service period. The Company recognized $4.8 million of expense on these RSUs in 2010. The fair value of these RSUs was determined using the Company's closing stock price on the grant date.

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 $2.6 million and $2.7 million of expense on these RSUs in 2010 and 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 29, 2011, and changes during the year then ended:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 30, 2010	1,445,172	$ 24.86
Granted	827,925	40.07
Vested	(792,489)	24.07
Forfeited	(35,847)	31.05
Nonvested at January 29, 2011	1,444,761	$ 33.88

In connection with the vesting of RSUs in 2010, 2009 and 2008, certain employees elected to receive shares net of minimum statutory tax withholding amounts which totaled $11.1 million, $4.8 million and $2.6 million, respectively. The total fair value of the restricted shares vested during the years ended January 29, 2011, January 30, 2010 and January 31, 2009 was $19.1 million, $9.6 million and $8.0 million, respectively.

Stock Options

In 2010 and 2009, the Company granted less than 0.1 million service-based stock options from the EIP, EOP and the NEDP, respectively. In 2008, the Company granted a total of 0.8 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 2010, 2009 and 2008, the Company recognized $2.3 million, $3.7 million and $4.7 million, respectively of expense related to service-based stock option grants. As of January 29, 2011, there was approximately $1.3 million of total unrecognized compensation expense related to these stock options which is expected to be recognized over a weighted average period of five 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 2008 are as follows. The 2010 and 2009 amounts are immaterial.

	Fiscal 2008
Expected term in years	6.0
Expected volatility	45.7%
Annual dividend yield	—
Risk free interest rate	2.8%
Weighted average fair value of options granted during the period	$8.97
Options granted	837.440

The following tables summarize the Company's various option plans and information about options outstanding at January 29, 2011 and changes during the year then ended.

Stock Option Activity

	January 29, 2011			
	Shares	Weighted Average Per Share Exercise Price	Weighted Average Remaining Term	Aggregate Intrinsic Value *(in millions)*
Outstanding, beginning of period	1,840,259	$ 19.34		
Granted	10,462	46.52		
Exercised	(798,098)	20.04		
Forfeited	(30,552)	16.37		
Outstanding, end of period	1,022,071	$ 19.16	4.6	$ 19.6
Options vested and expected to vest at January 29, 2011	1,022,071	$ 19.16	4.6	$ 19.6
Options exercisable at end of period	791,177	$ 18.80	3.8	$ 25.5

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding at January 29, 2011	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at January 29, 2011	Weighted Average Exercise Price
$0.57	1,555	N/A	$ 0.57	1,555	$ 0.57
$0.58 to $14.18	199,305	1.9	13.12	199,305	13.12
$14.19 to $19.86	486,314	5.2	17.55	321,171	17.39
$19.87 to $29.04	318,910	5.0	24.35	253,159	23.74
$29.05 to $32.24	5,525	8.8	32.22	5,525	32.22
$32.25 to $56.08	10,462	9.6	46.52	10,462	46.52
$0.57 to $56.08	1,022,071	4.6	$ 19.16	791,177	$ 18.80

The intrinsic value of options exercised during 2010, 2009 and 2008 was approximately $16.0 million, $11.0 million and $7.2 million, respectively.

Employee Stock Purchase Plan

Under the Dollar Tree, Inc. Employee Stock Purchase Plan (ESPP), the Company is authorized to issue up to 2,639,063 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 2,135,177 shares as of January 29, 2011.

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 2010	Fiscal 2009	Fiscal 2008
Expected term	**3 months**	3 months	3 months
Expected volatility	**13.2%**	17.4%	25.6%
Annual dividend yield	—	—	—
Risk free interest rate	**0.1%**	1.8%	3.8%

The weighted average per share fair value of those purchase rights granted in 2010, 2009 and 2008 was $6.59, $5.19 and $3.93, respectively. Total expense recognized for these purchase rights was $0.9 million, $0.9 million and $0.8 million in 2010, 2009 and 2008, respectively.

NOTE 10 – ACQUISITION

On November 15, 2010, the Company completed its acquisition of 86 Dollar Giant stores, located in the Canadian provinces of British Columbia, Ontario, Alberta and Saskatchewan. These stores offer a wide assortment of quality general merchandise, contemporary seasonal goods and everyday consumables, all priced at $1.25 (CAD) or less. This is the Company's first expansion of its retail operations outside of the United States and provides the Company with a proven management team and distribution network as well as additional potential store growth in a new market.

The Company paid approximately $51.3 million including the assumption of certain liabilities. The results of Dollar Giant store operations are included in the Company's financial statements since the acquisition date and did not have a significant impact on the Company's operating results in 2010. This acquisition is immaterial to the Company's operations as a whole and therefore no proforma disclosure of financial information has been presented. The following table summarizes the preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed based on the exchange rate in effect at the date of purchase.

(in millions)	
Cash	$ 1.9
Inventory	22.8
Other current assets	3.4
Property and equipment	10.1
Goodwill	39.5
Other intangibles	3.9
Debt	(13.8)
Accounts payable and accrued liabilities	(16.5)
	$ 51.3

Goodwill related to this acquisition is presented in the consolidated balance sheet at the exchange rate in effect at January 29, 2011; however, the opening balance sheet and resulting goodwill and acquired intangible assets are recorded based on the exchange rate in effect at the acquisition date.

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 2010 and 2009. 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 2010:				
Net sales	**$1,352.6**	**$1,377.9**	**$1,426.6**	**$1,725.3**
Gross profit	**$ 450.2**	**$ 483.5**	**$ 506.0**	**$ 647.9**
Operating income	**$ 102.6**	**$ 127.8**	**$ 140.9**	**$ 258.7**
Net income	**$ 63.6**	**$ 78.0**	**$ 93.2**	**$ 162.5**
Diluted net income per share	**$ 0.49**	**$ 0.61**	**$ 0.73**	**$ 1.29**
Stores open at end of quarter	**3,874**	**3,925**	**4,009**	**4,101**
Comparable store net sales change	**6.5%**	**6.7%**	**8.7%**	**3.9%**
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	$ 0.44	$ 0.42	$ 0.51	$ 1.01
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%

(1) Easter was observed on April 4, 2010 and April 12, 2009

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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
440 Monticello Avenue
Suite 1900
Norfolk, VA 23510

Stock Listing

Dollar Tree's common stock is listed on the NASDAQ Global Select Market. The Company's common stock has been listed 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 2010 and 2009, restated to reflect a 3-for-2 stock split effected as a stock dividend in June 2010.

Stock Price

	HIGH	LOW
2010		
First Quarter	**$41.79**	**$31.33**
Second Quarter	**45.12**	**38.40**
Third Quarter	**52.62**	**40.60**
Fourth Quarter	**57.99**	**50.09**
2009		
First Quarter	$30.22	$21.96
Second Quarter	31.52	27.05
Third Quarter	34.48	29.33
Fourth Quarter	34.80	30.51

Annual Meeting

You are cordially invited to attend our Annual Meeting of Shareholders, which will be held at 10:00 a.m. Eastern Time on Thursday, June 16, 2011, at The Founders Inn, 5641 Indian River Road, Virginia Beach, VA 23464.

Fiscal 2011 Earnings Release Calendar*

First quarter, May 19
Second quarter, August 18
Third quarter, November 17
Fourth quarter, February 22, 2012
**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

Dollar Tree

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