Dollar Tree Stores, Inc.

2004 Annual Report

The Art of the Possible

everything's $1.00

ABOUT THE COMPANY

Dollar Tree Stores, Inc. is the nation's largest extreme value store chain, selling merchandise at the $1.00 price point, every day.

Since its humble beginnings as a stroke on a blank canvas, consisting of five stores in 1986, Dollar Tree has grown substantially, and today operates more than 2,700 stores in all 48 contiguous states, making it the only national dollar-store chain. Headquartered in Chesapeake, Virginia, the Company employs more than 35,000 associates nationwide, and continues to grow at the staggering rate of opening almost one store a day. A network of nine distribution centers enables the Company to efficiently deliver merchandise to its stores, all across the country.

Dollar Tree stores offer a wide variety of merchandise, including aisles full of amazing bargains, such as party supplies, brand name consumables, framed art, books, gift bags, DVDs, batteries, and even crystal stemware. Such a wide variety of merchandise available for only $1?!? That's the Art of the Possible!

CONTENTS

Letter to Shareholders	2
From the Chief Financial Officer	5
Narrative	6
Management's Discussion & Analysis of Financial Condition and Results of Operations	13
Report of Independent Registered Public Accounting Firm	26
Consolidated Statements of Operations	27
Consolidated Balance Sheets	28
Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)	29
Consolidated Statements of Cash Flows	30
Notes to Consolidated Financial Statements	31

Our Store Design

An incredible amount of thought and attention goes into the design of each of our stores. From layout, flooring, in-store signage and easy-reach shelving, to bright lights that convey a welcoming environment, to ergonomic checkouts, no detail is overlooked. Specialty fixtures and

additional end-caps provide particularly valuable space for premium product displays. We've recently added three-dimensional signage, more-vibrant colors that emphasize the value in Dollar Tree, and lots of call-outs to remind customers that everything in the store truly is $1. . . believe it!

Financial Highlights

	2004	2003[a]	2002	2001	2000[b]
(In thousands, except store and per share data)					
Net Sales	$3,126,009	$2,799,872	$2,329,188	$1,987,271	$1,688,105
Gross Profit	1,112,539	1,018,413	851,974	718,830	624,891
Operating Income	293,551	293,597	253,921	203,865	203,036
Net Income	180,250	177,583	154,647	123,081	121,622
Net Income Available to Common Shareholders	180,250	177,583	154,647	123,081	120,209
Diluted Net Income Per Common Share					
Available to Common Shareholders	1.58	1.54	1.35	1.09	1.08
Working Capital	$ 675,532	$ 450,279	$ 509,629	$ 360,757	$ 303,209
Total Assets	1,792,672	1,501,519	1,116,377	902,048	746,859
Total Debt	281,746	185,151	54,429	62,371	71,730
Shareholders' Equity	1,164,212	1,014,522	855,404	651,736	518,658
Number of Stores Open	2,735	2,513	2,263	1,975	1,729
Total Selling Square Footage	20,444	16,878	13,042	10,129	7,818
Comparable Store Net Sales Increase[c]	0.5%	2.9%	1.0%	0.1%	5.7%
Average Net Sales Per Store[c]	$ 1,163	$ 1,134	$ 1,083	$ 1,043	$ 1,014

(a) In January 2003, the Company changed its fiscal year from December 31 to the Saturday closest to January 31, effective for the year beginning February 2, 2003.

(b) Includes merger-related costs of $1.1 million in cost of sales and $3.3 million in operating expenses related to the merger with Dollar Express on May 5, 2000. These costs, $3.1 million net of taxes, reduced diluted net income per common share by $0.02.

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

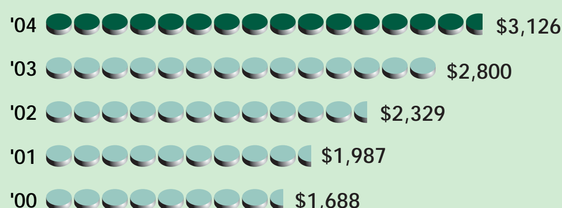
To Our SHAREHOLDERS

On paper, "The Art of the Possible" appears to be five ordinary words. But here at Dollar Tree, they take on a life of their own.

To us, it's all about taking the impossible and making it possible. It's taking an idea and watching it grow from a concept, to a sketch on paper, to a piece of art in the form of merchandise. The Art of the Possible is retaining the same $1 retail price we've charged since the company opened for business in 1986. The Art of the Possible is a living art, one that's taking place in more than 2,700 Dollar Tree stores, all across the United States.

Of course, it's our associates that really bring The Art of the Possible to life. More than 35,000 dedicated field associates bring passion to their jobs, ensuring stores are neatly organized, shelves are stocked with the right items, and customer purchases are rung efficiently. The infectious, can-do spirit of these associates imparts such a positive impression of Dollar Tree that our customers find themselves enthusiastic about coming back — again and again and again.

Delivering variety, value, and convenience with merchandise that consumers want and need — that's our whole purpose for being. And let's not forget: Everything's $1, in every aisle, every day, all year long.



And to our customers, that's what sets us apart. With a "$1 only" pricepoint, and a nationwide presence, we're unique. Dollar Tree brings new meaning to everyday low price.

Even in a tough year, when gasoline prices soared to record highs, Dollar Tree's operating margin remained the envy of other retailers. So not only are we able to create merchandise that delivers tremendous value to our customers, we're able to do so profitably — a win-win. That's how we deliver The Art of the Possible to our investors.

Speaking of this past year, it certainly threw a number of curveballs and challenges at us. Record high gas prices crimped the disposable income of our customers, while also increasing the cost to import and transport merchandise to our distribution centers and stores. Four hurricanes hitting Florida in less than two months caused upheaval for everything from trucking to store operations. But our stores weathered the storms, with some even doing business by candlelight — talk about dedication! Despite everything the commodity markets and Mother Nature threw our way, I am proud that we not only survived these tests but thrived.

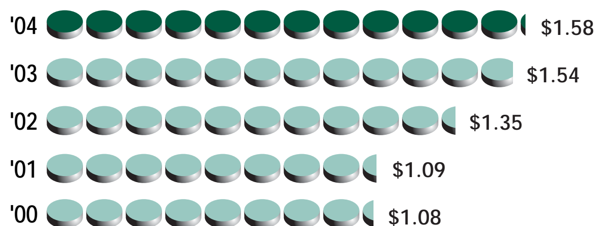
During these past several years, we have reinvested in the business to open up new possibilities for Dollar Tree and drive stronger results in the years ahead. Just some of our noteworthy accomplishments in 2004 include:

- *Successfully opening two new distribution centers: one in Ridgefield, Washington, the other in Joliet, Illinois. Seamlessly opening one new distribution center would be cause enough for a high-five. Two in the same year are cause for celebration. Having it occur in a year when the cost of gasoline soared is priceless. These two new distribution*

centers made possible dramatic reductions in the average distance our trucks travel from distribution center (DC) to store, helping to partially mitigate the increase in fuel prices.

- *Becoming the first truly national dollar-store operator in the United States when we opened our first store in North Dakota. We have the infrastructure and management oversight in place such that we can open new stores anywhere in the continental United States.*
- *Achieving record retention of store managers. We've found there's a direct link between manager tenure and store performance. So the better the job we do attracting, developing, and retaining qualified managers, the better our stores perform.*
- *Completing our point-of-sale (POS) rollout to virtually the entire chain. POS technology is now in place in nearly 2,600 of our stores, providing us the visibility we need to run the business more efficiently. To put it in perspective, this technology was not in our stores four years ago. As we know in retail, all items do not sell similarly in each store. Today, we are able to see exactly what's selling at each store, which makes planning, allocation, and replenishment much more precise. More than ever before, we can provide a better Thrill of the Hunt to our customers, because we know what they're looking for.*

Earnings Per Share



Bob Sasser
President and Chief Executive Officer

In 2004, we again set record highs for sales and earnings, even though the headwinds from higher energy prices and other factors kept the percentage increases in sales and earnings lower than we have become accustomed to. What's encouraging, though, is what we have in the works, to drive stronger sales and earnings performances in the years ahead. Here's a short list:

- *Automated store replenishment of additional key categories and items to additional stores will help raise in-stock levels, yet keep backrooms free of excessive inventory.*
- *New route-optimization software that minimizes the number of trucks and trips we need to make to deliver merchandise to our stores.*
- *A more-extensive marketing campaign that includes broadcast advertising via electronic media, such as radio and television, as well as public relations to tout new-store openings. It's all about driving awareness of Dollar Tree and our product, which should increase foot traffic through our stores.*

- *Wider acceptance of tender types, including debit, credit, and even electronic benefit transfer payments.*
- *Developing a metropolitan store model, where higher sales volumes will help absorb higher operating costs.*
- *Honing in on an optimal store size: 10,000 – 15,000 square feet is ideal for us, allowing us to show the great merchandise we have to offer, while keeping the shopping trip quick and convenient for our customers. Stores of this size continue to be our best performers.*

It may seem like there's a lot on our plate, and there is. We're constantly refining what we do, because it's essential to being a high-growth retailer. "A commitment to continuous improvement is the only way to succeed in the long run," according to the authors of "The Value Factor." "The job of changing will never be 'done.' "

Our 2005 plans revolve almost entirely around stores. For the first time in years, we don't need to build any new distribution centers. We have ample capacity in our existing distribution network to support all of our store growth in 2005. And there are plenty of places where there's room for us to grow. While we're growing, I want to spend more time ensuring each prospective new location meets our criteria for cost, size, sales and profit potential. Meanwhile, we'll continue to grow our business in new and existing markets, opening about one store per day.

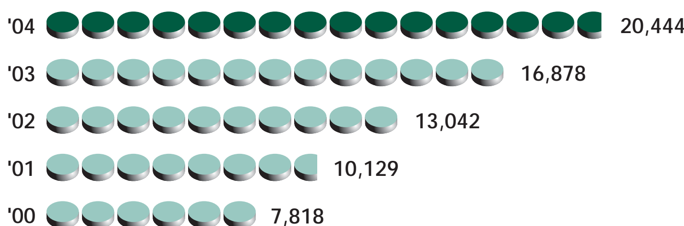
The Dollar Tree formula is pretty simple: New store openings + expansion of existing stores + increasing store productivity = top-line growth. We continue to work diligently to drive all three elements of that formula to generate robust revenue growth. To a certain extent, top-line growth helps drive profitability, insofar as additional sales help us leverage the many fixed-cost investments in the business — whether it's DCs, technology systems, or our people. But we've always believed that we must continue to proactively drive cost out of the system. To that end, you can count on us to keep a sharp focus on expenses in all areas of the business, and we will focus on increasing inventory turns.

Our people are essential to our success in these initiatives. We are grateful for their tireless efforts in every aspect of the business, and it is our mission to professionally develop these people to help drive Dollar Tree's future growth. We will continue to invest significantly in the development of our associates to foster a stimulating and rewarding environment in the years ahead.

To all of our associates, customers, vendors, and shareholders: We appreciate your loyalty — past, present, and future.

Bob Sasser
President and Chief Executive Officer

Total Selling Square Footage
(In thousands)



From THE CFO

Kent Kleeberger
Chief Financial Officer

As I pen my first CFO letter, it is appropriate to reflect on the strengths that initially attracted me to the company.

- *Dollar Tree has a successful and experienced management team*
- *A great store economic model*
- *A proven financial track record*
- *A strong financial position with a cash rich balance sheet*
- *Plenty of room for future growth*

These attributes remain firmly in place today just as they were back in July 2004 when I started here, and now I am even more convinced that we have the opportunity to grow at a premium rate when compared to other retailers. Here is why . . . .

Over the past three years, Dollar Tree has made substantial investments in infrastructure to build for the future. While these investments have challenged our operating margins over the past 18 months, we are well positioned to improve store productivity and improve upon processes. Major investments in POS technology and logistics have been completed. With the completion of our POS initiative last year, we now have visibility to product sales by store enabling us to get the right product, in the right quantity to the stores that can sell it. This will help drive store productivity and increase inventory turns. We completed the last phase of our logistics network last year, opening two new distribution centers. Our logistics network is now in place to efficiently deliver product anywhere in the country. With these major investments behind us, we expect to see operating profits improve, especially into the second half of 2005.

Our most important goal is to grow sales and earnings. A key part of our strategy to accomplish this is to open new stores, better and more efficiently. We continue to refine our real estate processes and we believe we have opportunities and the tools to open new stores more productively. You may also be assured that we will keep a watchful eye on our expenses and we expect to lower our store construction costs through competitive bidding and value engineering. The results will be improved profitability and a significant increase in cash. We will continue to self-fund our future store growth and infrastructure needs from internally generated cash.

We successfully completed our first year's compliance efforts under the requirements of Sarbanes-Oxley legislation. It has come at a tremendous expense to us and other public companies. However, as a shareholder of Dollar Tree, you should feel encouraged that our efforts toward SOX compliance were no less than 100%. The fruits of our labor resulted in a "clean bill of health" with no material weaknesses and no significant deficiencies noted in our accounting and reporting processes that remained un-remediated. But the real benefit to Dollar Tree was the enhancement and, in some cases, the introduction of new financial controls and disciplines, which are often overlooked or assigned a lower priority in high-growth environments. Let me assure you that we will not rest on our 2004 efforts. It starts with the tone at the top, and we will continue to focus our efforts to ensure that processes and policies are in place and under continual scrutiny to ensure the Company's adherence to all statutory and GAAP requirements and the continued integrity of our financial reporting.

I look forward to serving you in the future.

Kent Kleeberger
Chief Financial Officer

DOLLAR TREE IS CONVENIENCE

Equally important to offering amazing value for one dollar is providing customers with a fast, efficient, and convenient shopping experience.

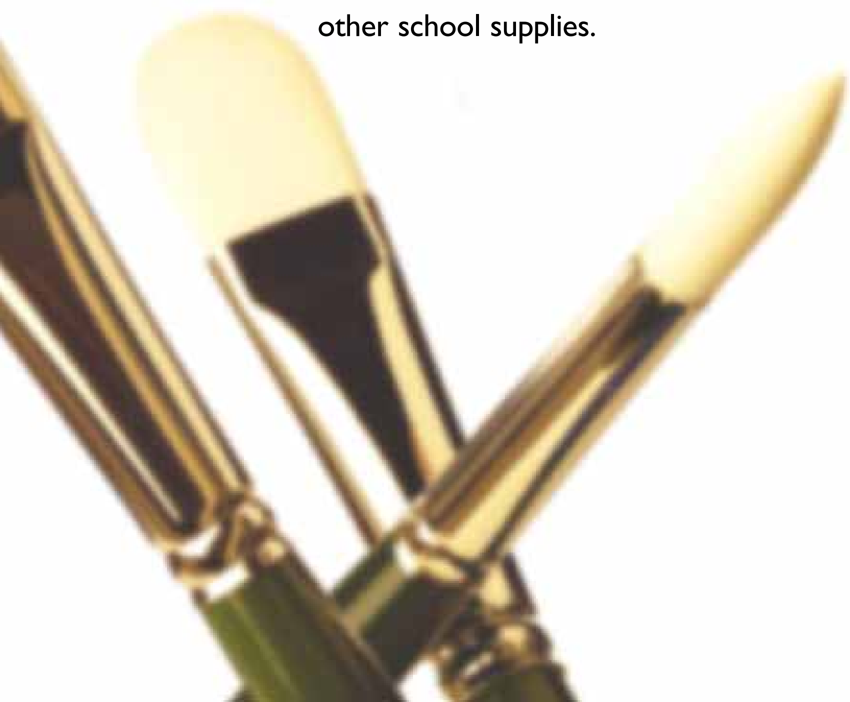
In real estate, it's all about location, location, location. Perhaps more appropriately in Dollar Tree's case that adage should be: locations, locations, locations. More than 2,700 of them. This past year, we became the first truly national dollar-store operator when we opened our first store in North Dakota. We now have stores in all 48 contiguous states, which is a lot more than just a milestone; it means there's very likely a Dollar Tree close to your home and convenient to where you shop.

Further, we're open when you want us to be. Seven days a week, 363 days a year. We are prepared to serve you for those last-minute needs on Christmas Eve, the morning of Thanksgiving, or on your way home from work. At night, our bright lights are a beacon that says, "We're open, c'mon in!"

The design of our stores also brings convenience front and center to the shopping experience. A substantial number of Dollar Tree stores are located in strip centers, and there's ample parking within mere steps of our front door. Once customers get to our front door, they can get in and out in a jiffy, or stay awhile and shop for surprising value — at their option. No need to schedule an hour or two for a shopping expedition. Fast, fun, and friendly — that's what we're all about.

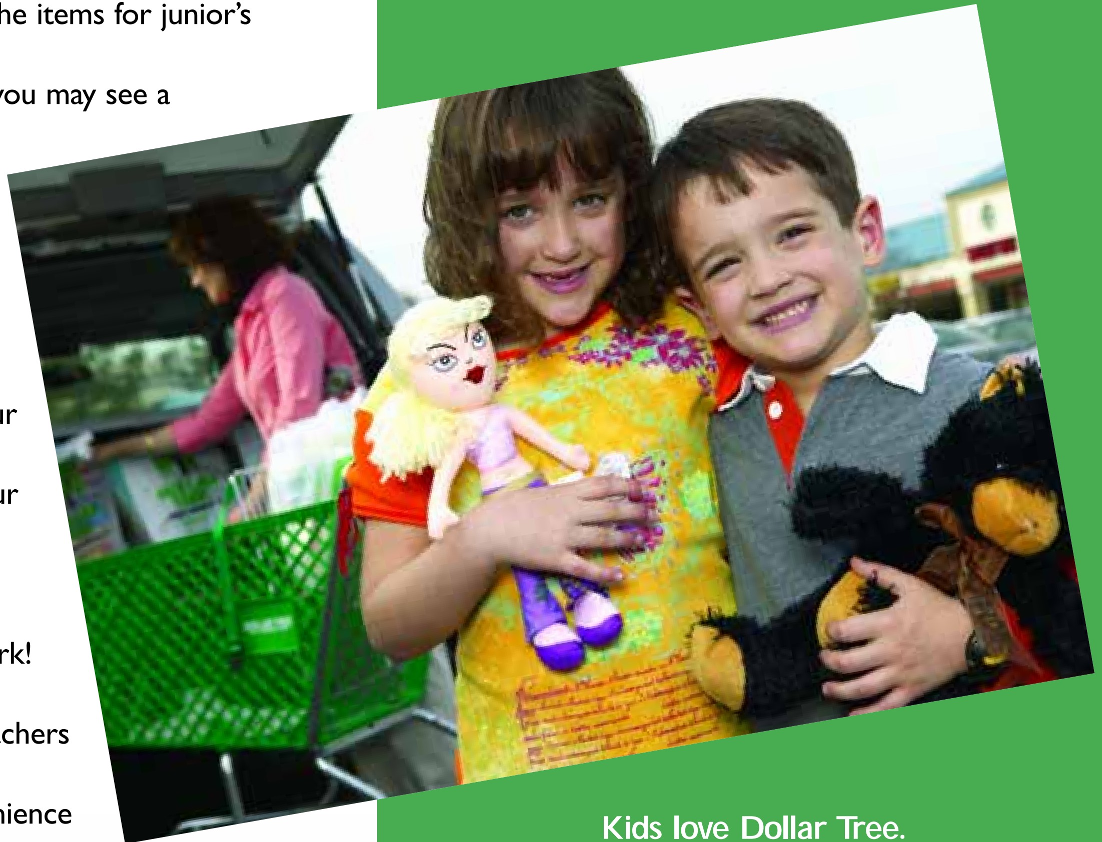
Our stores are the kind that kids just love. Our merchandise mix spans everything from toys, games, baby and toddler products, to party supplies, dolls, stuffed animals, and even grab bags. Where else can you give children a dollar and light up their eyes by telling them they can have anything in the store they want?!? We make fun affordable.

In addition to all the fun stuff, our stores also are a destination for school projects. After the school day lets out, just pop on by Dollar Tree lickety-split to pick up all the items for junior's assignments. Chances are you may see a school teacher, while in the store, shopping for classroom supplies. No guarantees, but set your school-age kids loose in our stores, and they may even enjoy doing their homework! That's why parents and teachers love us, too, for the convenience and value they get on posterboard, magic markers, composition notebooks, and many other school supplies.



Convenience

CONVENIENCE



Kids love Dollar Tree. Our merchandise is in easy reach for boys and girls. Where else can you give children a dollar and light up their eyes by telling them they can have anything in the store for just one dollar?

DOLLAR TREE MEANS VALUE

Almost 20 years ago, Dollar Tree was founded on the simple premise that every item would sell for $1. It's a novel idea to build a business around a pricepoint, rather than around a specific category of merchandise. And it's been a tremendous success – more than our founders ever would have imagined.

But it's not enough to simply sell stuff for $1. That "stuff" has got to be a value. In other words, we've got to offer customers "stuff" that's worth more than $1. So to us, value is a combination of a surprisingly low price AND quality. A visit to any of our 2,700+ stores will tell you that we're fulfilling that mission. Pet supplies, brooms, candy and snacks are just a smattering of the unbelievable values you'll find at Dollar Tree, even everyday household items. When was the last time you saw a brand-name toothbrush priced at $1 elsewhere? Along with the usual brands, we even sell battery-operated toothbrushes, and still just for $1.

In addition to price and quality, "value" also refers to dependability. So we offer brands customers know and trust. Additionally, we have begun highlighting our "Freshness Guaranteed" program to our customers. We want customers to know they can depend on food and beverage products that they purchase at our stores to be fresh, 100% of the time. And, through the use of our new POS systems, customers also can depend on us to be in-stock. So we're offering quality goods at a great price, on brands customers trust, with guaranteed freshness. That's "The Art of the Possible" at Dollar Tree!

Value

VALUE

In the shopping carts pictured to the right, you can see a striking representation of value. We recently comparison-shopped our competition for a few dozen items, selected at random. At Dollar Tree, those items cost $33.44, including tax; at a nearby mass retailer, we paid more than $62 for the same items. Countless similar comparison-shopping exercises have shown us time and again that Dollar Tree prices are 30-50% less expensive than grocery stores, drug stores, and mass merchants. In an era when prices for healthcare, fuel and many other items are rising, consumers are searching for ways to make their dollar stretch a little further. We like to think we make life a little more affordable.

THEIR PRICE
$62.30

OUR PRICE
$33.44

DOLLAR TREE MEANS THE THRILL OF THE HUNT

Through the years, the ever changing mix of merchandise at Dollar Tree has kept customers coming back, to experience the Thrill of the Hunt. Simply put, you never know what treasure awaits down each aisle. Could it be DVDs? Colored stemware? Handmade pottery? Cameras? Yes, yes, yes, and yes!

At Dollar Tree, customers are treated to thrilling opportunistic buys as well as exhilarating proprietary merchandise that can be found only at our stores. Each shopping experience is fresh and exciting; it's why customers keep coming back. Customers know Dollar Tree always will offer the everyday merchandise they have come to expect and love. The Thrill of the Hunt is a bonus, rewarding customers with the unexpected, WOW factor.

In the face of rising costs nowadays, it seems like a dollar just doesn't go as far as it used to. Except at Dollar Tree! Exceptional values and unexpected treasures are what we are all about.

Sure, Dollar Tree provides great value on items like dish soap and trash bags, and while our price is terrific, they're hardly the kind of items that stir customer excitement. After all, who loves washing the dishes or taking out the trash?!?

It's the rest of our merchandise that really produces a thrilling shopping experience. Customers are delighted to find merchandise they'd never expect to see in our stores, and they're equally thrilled when they get to the register and are reminded each item is just $1.

The living room pictured in the inset photograph is a striking example of the Thrill of the Hunt. We started with an "empty canvas," a room furnished only with a table and chairs. Then we went shopping at Dollar Tree and decorated this room with a wide array of Dollar Tree merchandise.

Take a close look at the photograph to the right, and you will discover items you would never expect to see at our stores.

- *Like DVDs! Ten episodes of vintage cartoons like Betty Boop for just a dollar.*
- *What a thrill to find a 35mm camera for a dollar, and a roll of film for another buck!*
- *Customers are treated to hardback novels, with cover prices of $20 or more.*
- *Even framed art. Who would think beautiful pieces that can adorn your walls would be available for just $1?*
- *The Tradewind Bay collection, conceived and produced exclusively for Dollar Tree, is a delightful example of product development. This exciting assortment of décor items*

consists of a stirring array of solid and stripe handmade pottery, dishes, and accessories. Found only at Dollar Tree, this coordinating line of merchandise satisfies all your decorating needs from placemats to napkins to picture frames.

Everything's $1.00

EVERYTHING'S $1.00

BEFORE

AFTER

The difference between the decorated and undecorated rooms is amazing. Even more amazing is that to go from bland to beautiful cost less than $80; that's The Art of the Possible.

Everything you need and more, for just a dollar; that's The Thrill of the Hunt.

Dollar Tree COAST TO COAST

Distribution Centers

Chesapeake, Virginia *January 1998**
Olive Branch, Mississippi *January 1999*
Stockton, California *January 2000*
Savannah, Georgia *February 2001*
Briar Creek, Pennsylvania *August 2001*
Marietta, Oklahoma *February 2003*
Salt Lake City, Utah *June 2003*
Ridgefield, Washington *February 2004*
Chicago, Illinois area *June 2004*

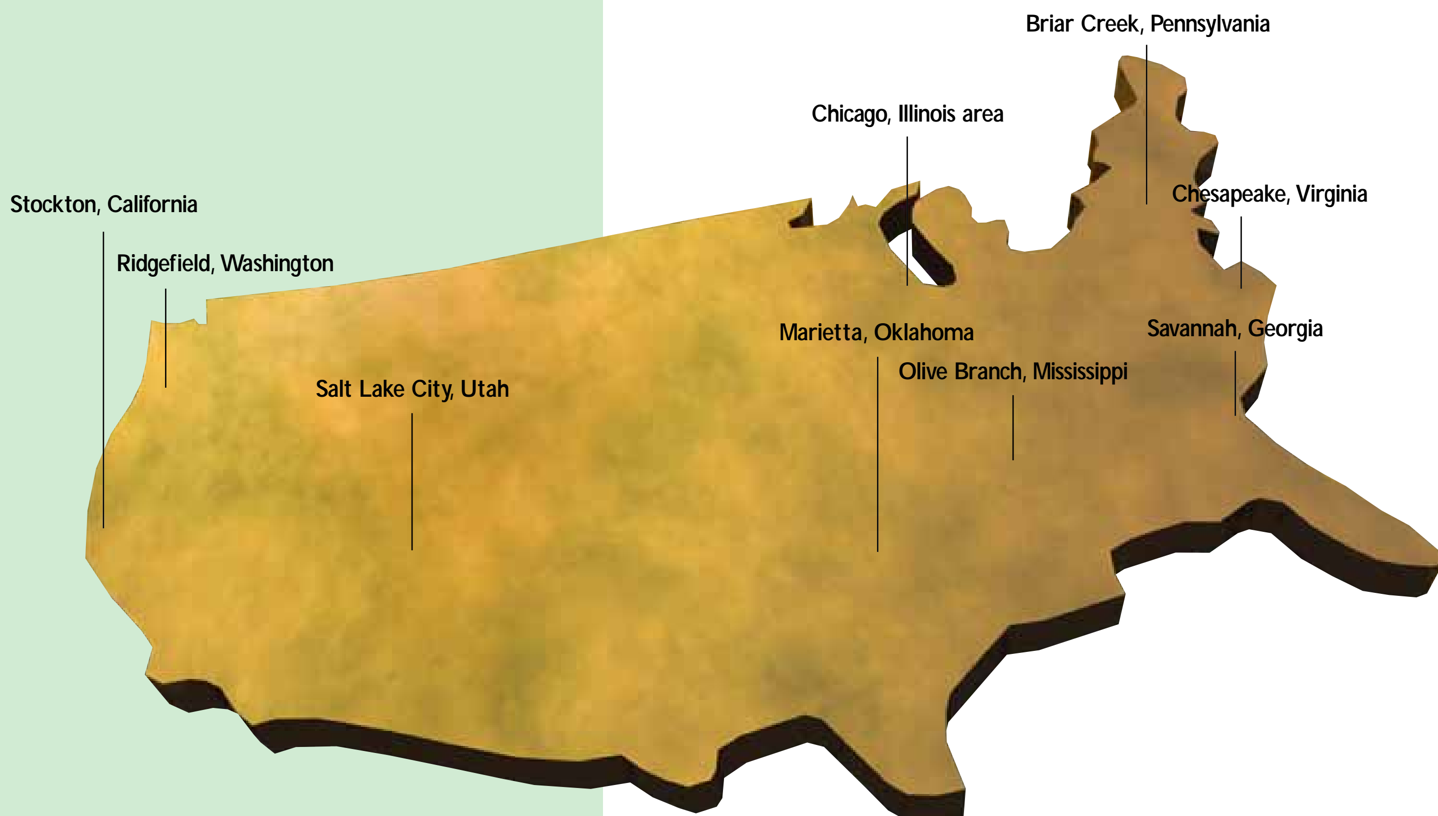
** Date opened*

Headquarters

Dollar Tree Stores, Inc.
500 Volvo Parkway
Chesapeake, Virginia 23320
Phone (757) 321-5000

Ten years ago, Dollar Tree operated one manual distribution center. Over the ensuing decade, significant resources have been devoted to build out a national distribution network capable of supporting stores in all 48 of the contiguous states. We now operate nine distribution centers, and most are fully automated.

The addition of new distribution centers reduces the mileage and cost to service our stores. Dollar Tree's logistics are focused on delivering merchandise efficiently at the lowest cost possible. We have to; everything we sell is only $1.00!



MANAGEMENT'S DISCUSSION & 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;
- 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 2005 and beyond;
- the net sales per square foot, net sales and operating income attributable to smaller and larger stores and store-level cash payback periods;
- the anticipated effect on 2005 earnings related to the lease accounting changes;
- the possible effect of inflation and other economic changes on our costs and profitability, including the possible effect of future changes in shipping rates, domestic and foreign freight costs, fuel costs, minimum wage rates and wage and benefit costs;
- our cash needs, including our ability to fund our future capital expenditures and working capital requirements;
- our gross profit margin, earnings, inventory levels and ability to leverage selling, general and administrative costs;
- our seasonal sales patterns including those relating to the length of the holiday selling seasons;
- changes in our merchandise mix and the effect on gross profit margin and sales;
- the capabilities of our inventory supply chain technology, planned labor management system 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 existing and planned distribution centers, including opening and expansion schedules;
- our expectations regarding competition and growth in our retail sector;
- costs of pending and possible future legal claims;
- management's estimates associated with our critical accounting policies, including inventory valuation, accrued expenses, and income taxes;
- the adequacy of our internal controls over financial reporting;
- the possible effect on our financial results of changes in generally accepted accounting principles relating to accounting for stock-based compensation.

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

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the risk factors described below, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 14. Our risk factors include:

- Failure to meet our goals for opening or expanding stores on a timely basis could cause our sales to suffer. We may not anticipate all the challenges that expanding our operations will impose and, as a result, we may not meet our targets for opening new stores and expanding profitably. In addition, new stores or expanded stores may cause sales at nearby stores to suffer, and we could have difficulties profitably renewing or replacing expiring leases.
- Adverse economic conditions, such as reduced spending due to lack of consumer confidence, inflation, gasoline prices or other factors, or bad weather could significantly reduce our sales. The outbreak of war and other national and international events, such as terrorism, could lead to disruptions in our supply chain or the economy.
- The resolution of certain legal matters discussed in Part I, Item 3, of this Form 10-K, could have a material adverse effect on our results of operations, accrued liabilities and cash.

- Our profitability is vulnerable to future increases in operating and merchandise costs including shipping rates, freight costs, fuel costs, wage levels, inflation, competition and other adverse economic factors because we sell goods at the fixed $1.00 price point.
- Our merchandise mix relies heavily on imported goods. An increase in the cost of these goods, for example because of inflation in their country of origin or currency revaluations, or disruption in the flow of these goods may significantly decrease our sales and profits because any transition to alternative sources may not occur in time to meet our demands. In addition, products and alternative sources may also be of lesser quality or more expensive than those we currently import.
- Our sales may be below expectations during the Christmas and Easter selling seasons, which may cause our operating results to suffer materially.
- The performance of our distribution system is critical to our operations. Unforeseen disruptions or costs in our receiving and distribution systems could harm our sales and profitability.
- Disruptions in the availability of quality, low-cost merchandise in sufficient quantities to maintain our growth may reduce sales and profits.

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

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

INTRODUCTORY NOTE: *Unless otherwise stated, references to "we," "our" and "Dollar Tree" generally refer to Dollar Tree Stores, Inc. and its direct and indirect subsidiaries on a consolidated basis. Unless specifically indicated otherwise, any references to "2005" or "fiscal 2005," "2004" or "fiscal 2004," and "2003" or "fiscal 2003" relate to as of or for the years ended January 28, 2006, January 29, 2005 and January 31, 2004, respectively. Any reference to "2002" or "fiscal 2002" relates to as of or for the year ended December 31, 2002.*

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 earnings and costs were in 2004 and 2003;
- why those earnings 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 2004 and what we expect them to be in 2005; 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 Item 8 of this Form 10-K, which present the results of operations for the fiscal years ended January 29, 2005 and January 31, 2004, the one-month period ended February 1, 2003, and the calendar year ended December 31, 2002. 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 2004 compared to the comparable fiscal year 2003 and the fiscal year 2003 compared to the fiscal year 2002.

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

Key Events and Recent Developments

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

- In March 2005, our Board of Directors authorized the repurchase of up to $300 million of our common stock during the next three years. This authorization superseded the previous repurchase program authorized by the Board in November 2002.
- In 2004, we completed construction and began operations in two new distribution centers. In June 2004, we began operations in our new distribution center in Joliet, Illinois. The Joliet distribution center is a 1.2 million square foot, fully automated facility that replaced our Chicago distribution center. In February 2004, we began operations in our Ridgefield, Washington distribution center. The Ridgefield distribution center is a 665,000 square foot facility that can be expanded to accommodate future growth needs. With the completion of these two distribution centers, we now have nine distribution centers that will support approximately $4.5 billion in sales annually. We do not plan to expand our distribution center capacity until at least fiscal 2006.
- In March 2004, we entered into a five-year $450.0 million Unsecured Revolving Credit Facility (Facility). We used availability under this Facility to repay the $142.6 million of variable rate debt related to our variable interest entity. This Facility also replaced our $150.0 million revolving credit facility.
- In June 2003, we completed our acquisition of Greenbacks, Inc., based in Salt Lake City, Utah. Greenbacks operated 100 stores in 10 western states and an expandable 252,000 square foot distribution center in Salt Lake City. We accounted for this acquisition under the purchase method of accounting and as a result, Greenbacks is included in our results since the date of acquisition, which was June 29, 2003.
- In January 2003, we changed our fiscal year from a calendar year to a retail fiscal year ending on the Saturday closest to January 31. Our first fiscal year reported is fiscal 2003. Fiscal 2003 is the period beginning February 2, 2003 and ending January 31, 2004.

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 mergers or 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.

In fiscal 2004, we increased our selling square footage by approximately 21%. Of this 3.6 million selling square foot increase, approximately 0.9 million was added by expanding existing stores. While we met our square footage growth target in 2004, many of these stores opened later than planned during the year, resulting in lower overall sales than planned. Our net comparable store net sales increase for fiscal 2004 was 0.5%, which was lower than planned. If not for the positive effect of relocated stores, our comparable store net sales results would have been negative. In 2005, we will focus on reengineering our real estate process, which includes timely opening of new stores and relocated stores and have therefore planned for square footage growth of 14%-16%.

Most retailers have the ability to increase their merchandise prices or alter the mix of their merchandise to favor higher-priced items in order to increase their comparable store net sales. As a fixed-price point retailer, we do not have the ability to raise our prices. Generally, our comparable store net sales will increase only if we sell more units per transaction or experience an increase in transactions.

We expect the substantial majority of our future net sales growth to come from square footage growth resulting from new store openings and expansion of existing stores. We expect the average size of new stores opened in fiscal 2005 to be approximately 10,000 selling square feet per store (or about 12,500 gross square feet). We believe this size allows us to achieve our objectives in the markets in which we plan to expand. Larger stores take longer to negotiate, build out and open and generally have lower net sales per square foot than our smaller stores.

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

While our newer, larger stores have lower sales per square foot than older, smaller stores, they generate higher sales and operating income per store and create an improved shopping environment that invites customers to shop longer and buy more. When our larger stores become the majority of our store base, which we expect to occur by the end of 2005, we believe our net sales per square foot will begin to rise.

We must control our merchandise costs, inventory levels and our general and administrative expenses. Increases in these expenses could negatively impact our operating results because we cannot pass on increased expenses to our customers by increasing our merchandise-selling price above the $1.00 price point.

Our point-of-sale technology provides us with valuable sales information to assist our buyers and to improve merchandise allocation to the stores. We believe that it will enable us to better control our inventory, which will result in more efficient distribution and store operations. During the first half of fiscal 2004, we completed the rollout of our point-of-sale systems to most of our stores. Due to the fact that this rollout is now substantially complete, we expect our depreciation expense as a percentage of sales to be about flat for fiscal 2005 as compared to fiscal 2004.

Our plans for fiscal 2005 operations anticipate comparable store net sales increases of flat to slightly positive, net sales in the $3.4 to $3.5 billion range and diluted earnings per share of $1.77 to $1.87. We also expect a shift in the seasonality of our earnings in 2005. For example, the Easter selling season is 16 days shorter in the current year, impacting the first quarter of 2005, and there is an extra day between Thanksgiving and Christmas, which will impact the fourth quarter as compared to the prior year.

We recognized a one-time non-cash, after-tax adjustment of approximately $5.7 million, or $0.05 per diluted share, in the fourth quarter of 2004 to reflect the cumulative impact of a correction of our accounting practices related to leased properties. Of the aforementioned amount, approximately $1.2 million, or $0.01 per diluted share, related to the current year. This adjustment was made in light of the views, of the Office of the Chief Accountant of the Securities and Exchange Commission, expressed in a letter of February 7, 2005, to the American Institute of Certified Public Accountants regarding the application of generally accepted accounting principles to operating lease accounting matters. Consistent with industry practices, in prior periods, we had reported straight-line expenses for leases beginning on the earlier of the store opening date or the commencement date of the lease. This had the effect of excluding the pre-opening or build-out period of our stores (generally 60 days) from the calculation of the period over which we expense rent. In addition, amounts received as tenant allowances or rent abatements were reflected in the balance sheet as a reduction to store leasehold improvement costs instead of being classified as deferred lease credits. The adjustment made to correct these practices does not affect historical or future net cash flows or the timing of payments under related leases. Rather, this change affected the classification of costs on the statement of operations and cash flows by increasing depreciation and decreasing rent expense, which is included as cost of sales. In addition, fixed assets and deferred liabilities increased due to the net cumulative unamortized allowances and abatements. We believe that the new lease accounting practices will have a $0.01 per diluted share effect on 2005 earnings.

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

Results of Operations

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

	Year Ended January 29, 2005	Year Ended January 31, 2004	Year Ended February 1, 2003
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**64.4%**	63.6%	63.6%
Gross profit	**35.6%**	36.4%	36.4%
Selling, general and administrative expenses	**26.2%**	25.9%	25.9%
Operating income	**9.4%**	10.5%	10.5%
Interest income	**0.1%**	0.1%	0.1%
Interest expense	**(0.3%)**	(0.3%)	(0.2%)
Income before income taxes and cumulative effect of a change in accounting principle	**9.2%**	10.3%	10.4%
Provision for income taxes	**(3.4%)**	(4.0%)	(4.0%)
Income before cumulative effect of change in accounting principle	**5.8%**	6.3%	6.4%
Cumulative effect of a change in accounting principle, net of tax benefit of $3,309	**0.0%**	0.0%	(0.2%)
Net income	**5.8%**	6.3%	6.2%

Fiscal year ended January 29, 2005 compared to fiscal year ended January 31, 2004

Net Sales. Net sales increased 11.6% in 2004 compared to 2003. We attribute this $326.1 million increase in net sales primarily to new stores in 2004 and 2003 which are not included in our comparable store net sales calculation and to a slight increase in comparable store net sales of 0.5% in 2004. 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 stores. If not for the positive effect of relocated stores, our comparable store net sales results would have been negative in 2004. Our stores larger than 10,000 square feet continue to produce our best comparable store net sales results.

The following table summarizes the components of the changes in our store size and count for fiscal years ended January 29, 2005 and January 31, 2004.

Fiscal years ended	**January 29, 2005**	January 31, 2004
New stores	**209**	183
Acquired stores	**42**	100
Expanded or relocated stores	**129**	124
Closed stores	**(29)**	(42)

Of the 3.6 million selling square foot increase in 2004, approximately 0.9 million in selling square feet was added by expanding existing stores.

Gross Profit. Gross profit margin decreased to 35.6% in 2004 compared to 36.4% in 2003. The decrease is primarily due to the following:

- Merchandise cost, including inbound freight, increased approximately 20 basis points, primarily due to increases in inbound freight costs. Inbound freight costs increased due to higher fuel costs and higher import rates.
- Markdown expense increased approximately 15 basis points due primarily to hurricane related markdowns in the third quarter of 2004, markdowns taken on lower than planned seasonal sell through of Christmas merchandise and a longer after Christmas holiday sale than in the prior year resulting in higher promotional markdowns.
- Occupancy costs increased approximately 65 basis points due to deleveraging associated with the low comparable store net sales increase and the increase in rent expense in 2004 due to lease accounting changes

noted in the "Overview."

- Partially offsetting these increases was an approximate 20 basis point decrease in shrink expense due to the overall improvement in the shrink rate in the current year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, as a percentage of net sales, increased to 26.2% in 2004 compared to 25.9% in 2003. The increase is primarily due to the following:

- Depreciation expense increased approximately 30 basis points as a result of our larger new and expanded stores and the continued installation of our point-of-sales systems and other technology assets.
- Advertising costs increased approximately 15 basis points due to increased electronic media and print advertising in certain markets in the current year.
- Insurance and benefits expense increased approximately 10 basis points due to increased healthcare and workers' compensation expenses in the current year.
- Partially offsetting these rate increases was an approximate 15 basis point decrease in store payroll costs in the current year due to continued improvements in store-level labor productivity.

Operating Income. Due to the reasons discussed above, operating income margin decreased to 9.4% in 2004 compared to 10.5% for 2003.

Interest Expense. Interest expense increased $1.9 million in 2004 as compared to 2003. This increase is due to increased debt in the current year and $0.7 million of deferred financing costs that were charged to interest expense as a result of the refinancing of the $150.0 million credit facility and the repayment of the $142.6 million of variable rate debt in March 2004.

Income Taxes. Our effective tax rate was 37.5% in 2004 compared to 38.5% in 2003. The decreased tax rate for 2004 was due primarily to a one-time tax benefit of $2.3 million, or 80 basis points, related to the resolution of a tax uncertainty and approximately $0.6 million, or 20 basis points, related to tax exempt interest on our investments.

Fiscal year ended January 31, 2004 compared to fiscal year ended February 1, 2003

The following table is presented to compare statements of operations amounts for the fiscal year ended January 31, 2004 to the fiscal year ended February 1, 2003. Amounts for the fiscal year ended February 1, 2003 are not included in the Consolidated Statements of Operations on page 27.

(In thousands)	**Year Ended January 31, 2004**	Year Ended February 1, 2003
Net sales	**$2,799,872**	$2,357,836
Cost of sales	**1,781,459**	1,499,594
Gross profit	**1,018,413**	858,242
Selling, general and administrative expenses	**724,816**	610,854
Operating income	**293,597**	247,388
Interest income	**2,648**	3,445
Interest expense	**(8,382)**	(4,812)
Changes in fair value of non-hedging interest rate swaps	**889**	(1,297)
Income before income taxes and cumulative effect of a change in accounting principle	**288,752**	244,724
Provision for income taxes	**111,169**	94,220
Income before cumulative effect of a change in accounting principle	**177,583**	150,504
Cumulative effect of a change in accounting principle, net of tax benefit	**—**	(5,285)
Net income	**$ 177,583**	$ 145,219

Net Sales. Net sales increased 18.7% in 2003 compared to 2002. We attribute this $442.0 million increase in net sales primarily to new stores in 2003 and 2002 which are not included in our comparable store net sales calculation and to a comparable store net sales increase of 2.9% in 2003. 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 stores. Our comparable store net sales increase was due to our expanded and relocated stores. Net sales

in our larger, newer stores, particularly the stores over 10,000 square feet, have been stronger than those in our smaller, older stores.

The following table summarizes the components of the changes in our store size and count for fiscal years ended January 31, 2004 and February 1, 2003.

Fiscal years ended	**January 31, 2004**	February 1, 2003
New stores	**183**	314
Acquired stores	**100**	—
Expanded or relocated stores	**124**	110
Closed stores	**(42)**	(36)

Of the 3.6 million selling square foot increase in 2003, approximately 0.9 million selling square feet was added by expanding existing stores.

Gross Profit. Gross profit margin was 36.4% in 2003 and 2002. While gross profit margin remained consistent year to year, the changes in the components of gross margin are detailed below:

- Markdown expense decreased approximately 20 basis points due to better seasonal sell-through, use of point-of-sale data to better manage the buying process and better allocated merchandise across store classes;
- Offsetting the markdown improvement was a 20 basis point increase in occupancy costs. This increase was the result of two fewer selling days in 2003 compared to 2002 and increased occupancy rates in our smaller stores which generally experience lower comparable store net sales;
- In addition, during 2003, gross profit margin was affected by approximately $3.8 million of additional non-cash depreciation expense in cost of sales associated with the adoption of Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities*. By adopting FIN 46, four of our distribution centers, previously accounted for as operating leases, were consolidated in our financial statements effective January 1, 2003.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, as a percentage of net sales, remained unchanged at 25.9% in 2003; the changes in the components of selling, general and administrative expenses are detailed below:

- Depreciation expense increased approximately 50 basis points due to our larger new and expanded stores and the continued installation of our new point-of-sale systems and other technology assets.
- This increase was partially offset by a decrease of approximately 40 basis points in payroll-related and store operating expenses. Continued improvements in store-level labor productivity and store supply expenses were the primary drivers of our lower payroll-related and store operating expenses, as a percentage of net sales.

Operating Income. Due to the reasons discussed above, operating income margin was consistent at 10.5% for 2003 and 2002.

Interest Income and Expense. Interest income, as a percentage of net sales, was consistent at 0.1% in 2003 and 2002. Interest expense increased $3.6 million primarily due to the consolidation of our variable-interest entity effective January 1, 2003.

Income Taxes. Our effective tax rate was 38.5% in 2003 and 2002.

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 expansion

programs from internally generated funds and seasonal borrowings under our credit facilities.

The following table compares cash-related information for the years ended January 29, 2005, and January 31, 2004:

(In millions)	**Year Ended January 29, 2005**	Year Ended January 31, 2004
Net cash provided by (used in):		
Operating activities	**$276.5**	$243.7
Investing activities	**(315.4)**	(282.4)
Financing activities	**61.3**	(35.5)

The $32.8 million increase in cash provided by operating activities in 2004 was primarily due to increased profitability before non-cash depreciation and amortization expense. Increased non-cash depreciation expense was primarily attributed to our square footage growth in 2004, two new distribution centers in the current year and our continued installation of our point-of-sale systems and other technology assets.

Cash used in investing activities is generally expended to open new stores and to expand or relocate existing stores. The $33.0 million increase in 2004 compared to 2003 was primarily due to the following:

- increased investment of cash from borrowings under our Facility in the current year;
- this increase was partially offset by the acquisition of Greenbacks for approximately $100.5 million in 2003; and
- decreased capital expenditures due to higher expenditures in the prior year on our distribution center projects that were completed in the first half of 2004.

The $96.8 million change in cash provided by financing activities in 2004 compared to 2003 was primarily the result of the following:

- increased borrowings under our Facility, net of the repayment of our variable rate debt for our distribution centers;
- partially offsetting this increase in cash is a $10.6 million increase in stock repurchases in the current year under a $200.0 million authorization granted by our Board of Directors in November 2002 and $7.1 million decrease in cash proceeds from stock issued under stock-based compensation plans.

In March 2004, we entered into a five-year $450.0 million Revolving Credit Facility. This facility bears interest at LIBOR, plus 0.475% spread. We used availability under this facility to repay $142.6 million of variable rate debt related to our variable interest entity and to invest in certain short-term securities. As of January 29, 2005, we had $200.0 million available under this facility.

At January 29, 2005, our long-term borrowings were $269.0 million and our capital lease commitments were $12.7 million. We also have a $125.0 million Letter of Credit Reimbursement and Security Agreement, under which approximately $88.9 million was committed to letters of credit issued for routine purchases of imported merchandise.

In March 2005, our Board of Directors authorized the repurchase of up to $300.0 million of our common stock during the next three years. This new authorization terminated the previous November 2002 authorization. As of the termination date, we had repurchased 5,065,495 shares for approximately $142.0 million under the November 2002 authorization. As of April 13, 2005, we had repurchased 2,048,900 shares for approximately $55.6 million under the March 2005 authorization.

Funding Requirements

Overview

In 2004, the average investment per new store, including capital expenditures, initial inventory and pre-opening costs, was approximately $469,000. We expect our cash needs for opening new stores and expanding existing stores in fiscal 2005 to total approximately $138.6 million, which includes capital expenditures and initial inventory and pre-opening costs. Our estimated capital expenditures for fiscal 2005 are between $125.0 and $140.0 million, including planned expenditures for new and expanded stores and investments in technology. 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 borrowings under our existing credit facilities.

The following tables summarize our material contractual obligations, including both on- and off-balance sheet arrangements, and our commitments *(in millions)*:

Contractual Obligations	Total	2005	2006	2007	2008	2009	Thereafter
Lease Financing							
Operating lease obligations	$ 914.9	$216.9	$188.6	$156.3	$119.2	$ 83.6	$150.3
Capital lease obligations (primarily sale-leaseback)	13.7	13.1	0.3	0.2	0.1	0.0	—
Long-term Borrowings							
Revolving credit facility	250.0	—	—	—	—	250.0	—
Revenue bond financing	19.0	19.0	—	—	—	—	—
Total obligations	$1,197.6	$249.0	$188.9	$156.5	$119.3	$333.6	$150.3

Commitments	Total	Expiring in 2005	Expiring in 2006	Expiring in 2007	Expiring in 2008	Expiring in 2009	Thereafter
Letters of credit and surety bonds	$ 129.0	$129.0	$ —	$ —	$ —	$ —	$ —
Freight contracts	35.5	25.5	10.0	—	—	—	—
Technology assets	5.8	5.8	—	—	—	—	—
Total commitments	$ 170.3	$160.3	$ 10.0	$ —	$ —	$ —	$ —

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, 2005 for stores that were not yet open on January 29, 2005.

Capital Lease Obligations (primarily sale-leaseback). In September 1999, we sold certain retail store leasehold improvements to an unrelated third party and leased them back for seven years. As a result of the transaction, we received net cash of $20.9 million and an $8.1 million 11.0% note receivable, which matures in October 2005. In 2004, we exercised the right to repurchase the leasehold improvements at October 31, 2005. In order to exercise this right, our lease obligation related to these improvements increased by $0.2 million. The total amount of the lease obligation at January 29, 2005 was $11.7 million. The obligation and the note receivable will both be satisfied at the buyout date of October 31, 2005.

Long-Term Borrowings

Revolving Credit Facility. In March 2004, we entered into a five-year Revolving Credit Facility (the Facility). The Facility provides for a $450.0 million line of credit, including up to $50.0 million in available letters of credit, bearing interest at LIBOR, plus 0.475%. The Facility, among other things, requires the maintenance of certain specified financial ratios, restricts the payment of certain distributions and prohibits the incurrence of certain new indebtedness. We used availability under this Facility to repay the $142.6 million of variable-rate debt and to purchase short-term investments. As of January 29, 2005, we had $250.0 million outstanding on this Facility.

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 borrowed 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, 2005, the balance outstanding on the bonds was $19.0 million. We begin repayment of the principal amount of the bonds in June 2006, with a portion maturing each June 1 until the final portion matures 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 2.57% at January 29, 2005. The bonds are secured by a $19.3 million letter of credit issued by one of our existing lending banks. The letter

of credit is renewable annually. The letter of credit and reimbursement agreement requires that we maintain specified financial ratios and restricts our ability to pay cash dividends.

Commitments

Letters of Credit and Surety Bonds. Effective March 12, 2001, we entered into a Letter of Credit Reimbursement and Security Agreement, which provides $125.0 million for letters of credit, which are generally issued for the routine purchase of imported merchandise. Approximately $88.9 million was committed to letters of credit at January 29, 2005. We also have letters of credit or surety bonds outstanding for our revenue bond financing, our 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 January 2007. The total amount of these commitments is approximately $35.5 million.

Technology Assets. We have commitments totaling approximately $5.8 million to primarily purchase store technology assets for our stores during 2005.

Derivative Financial Instruments

We are party to two interest rate swaps, which allow us to manage the risk associated with interest rate fluctuations on the demand revenue bonds and a portion of our revolving credit facility. The swaps are based on notional amounts of $19.0 million and $25.0 million. Under the $19.0 million agreement, as amended, we pay interest to the bank that provided the swap at a fixed rate. In exchange, the financial institution pays us at a variable-interest rate, which is similar to the rate on the demand revenue bonds. The variable-interest rate on the interest rate swap is set monthly. No payments are made by either party under the swap for monthly periods with an established interest rate greater than a predetermined rate (the knock-out rate). The swap may be canceled by the bank or us and settled for the fair value of the swap as determined by market rates.

The $25.0 million interest rate swap agreement is used to manage the risk associated with interest rate fluctuations on a portion of our revolving credit facility. Under this agreement, we pay interest to a financial institution at a fixed rate of 5.43%. In exchange, the financial institution pays us at a variable-interest rate, which approximates the floating rate on the debt, excluding the credit spread. The interest rate on the swap is subject to adjustment monthly. The swap is effective through March 2006, but it may be canceled by the bank or us and settled for the fair value of the swap as determined by market rates.

Because of the knock-out provision in the $19.0 million swap, changes in the fair value of that swap are recorded in earnings. Changes in fair value on our $25.0 million interest rate swap are recorded as a component of "accumulated other comprehensive income" in the consolidated balance sheets because the swap qualifies for hedge accounting treatment in accordance with Statement of Financial Accounting Standards No. 133, as amended by Statement of Financial Accounting Standards No. 138. The amounts recorded in accumulated other comprehensive income are subsequently reclassified into earnings in the same period in which the related interest affects earnings.

For more information on the interest rate swaps, see "Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk."

Critical Accounting Policies

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

Inventory Valuation

As discussed in Note 1 to the Consolidated Financial Statements, inventories at the distribution centers are stated at the lower of cost or market with cost determined on a weighted-average basis. Cost is assigned to store inventories using the retail inventory method on a weighted-average basis. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are computed by applying a calculated cost-to-retail ratio to the retail value of

inventories. The retail inventory method is an averaging method that has been widely used in the retail industry and results in valuing inventories at lower of cost or market when markdowns are taken as a reduction of the retail value of inventories on a timely basis.

Inventory valuation methods require certain significant management estimates and judgments, including estimates of 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 carryover seasonal 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 estimates of markdowns compared with actual results.

Our accrual for shrink is based on the actual historical shrink results of our most recent physical inventories adjusted, if necessary, for current economic conditions. These estimates are compared to actual results as physical inventory counts are taken and reconciled to the general ledger. The majority of our counts are taken between January and May of each year; therefore, the shrink accrual recorded at January 29, 2005 is based on estimated shrink for most of 2004, including the fourth quarter. We have not experienced significant fluctuations in historical shrink rates in our Dollar Tree stores. 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.

Accrued Expenses

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

Income Taxes

On a quarterly basis, we estimate our required tax liability and assess the recoverability of our deferred tax assets. Our 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. The current tax liability includes a liability for resolution of tax uncertainties. Management assesses the realizability of our 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 income in future years. Historically, we have not experienced significant differences in our estimates of our tax accrual. However, in 2004 we recognized a one time tax benefit related to the resolution of a tax uncertainty.

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 20, 2003, April 11, 2004 and will be observed on March 27, 2005. Due to the 16-day shorter Easter selling season in 2005, we expect a smaller portion of our annual earnings to be realized in the first quarter of 2005 as compared to 2004. We generally realize a disproportionate amount of our net sales and a substantial majority 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 or consumer sentiment.

Our unaudited results of operations for the eight most recent quarters are shown in a table in Footnote 13 of the Consolidated Financial Statements in Item 8 of this Form 10-K.

Inflation and Other Economic Factors

Our ability to provide quality merchandise at a fixed price and on a profitable basis may be subject to economic factors and influences that we cannot control. Consumer spending could decline because of economic pressures, including rising gas 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. In the past, we have experienced annual increases of as much as 33% in our trans-Pacific shipping rates due primarily to rate increases imposed by the trans-Pacific shipping cartel. 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 imported 19,612 forty-foot equivalent containers in 2004 and expect this number to increase in fiscal 2005 proportionately to sales growth. As a result, our trans-Pacific shipping costs in fiscal 2005 may increase compared with fiscal 2004 when we renegotiate our import shipping rates effective May 2005. We can give no assurances as to the amount of the increase, as we are in the early stages of our negotiations.

Because of the increase in fuel costs throughout 2004 and the threat of continued increases in 2005, we expect increased fuel surcharges from our domestic contract carriers compared with past years. Based on current fuel prices, we estimate that the costs resulting from increased fuel surcharges may approximate $4.0 to $5.0 million in 2005. We expect to offset a portion of this potential increase with improved operational efficiencies, including improved routing and reduced distance between distribution centers and the stores that they service.

Minimum Wage. Although our average hourly wage rate is significantly higher than the federal minimum wage, an increase in the mandated minimum wage could significantly increase our payroll costs. In prior years, proposals increasing the federal minimum wage by $1.00 per hour have narrowly failed to pass both houses of Congress. However, if the federal minimum wage were to increase by $1.00 per hour, we believe that our annual payroll expenses would increase by approximately 40 basis points, unless we realize offsetting cost reductions.

Leases for Replaced Distribution Centers. We are liable for rent and pass-through costs under two leases for now-closed distribution centers whose leases expire in June 2005 and September 2005. We have recorded charges to settle these estimated future obligations.

Unless offsetting cost savings are realized, adverse economic factors, including inflation in operating costs, could harm our financial condition and results of operations.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). This

statement is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Under the provisions of this statement, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include retrospective and prospective adoption methods. Under the retrospective method, prior periods may be restated based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures (see Note 1 to the consolidated financial statements) either for all periods presented or as of the beginning of the year of adoption.

The prospective method requires that compensation expense be recognized beginning with the effective date, based on the requirements of this statement, for all share-based payments granted after the effective date, and based on the requirements of SFAS No. 123, for all awards granted to employees prior to the effective date of this statement that remain unvested on the effective date.

The provisions of this statement are effective for fiscal 2006 and we are currently evaluating the requirements of this revision and have not determined our method of adoption.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

To meet this objective, we entered into derivative instruments in the form of interest rate swaps to manage fluctuations in cash flows resulting from changes in the variable-interest rates on the obligations. The interest rate swaps reduce the interest rate exposure on these variable-rate obligations. Under the interest rate swap, we pay the bank at a fixed-rate and receive variable-interest at a rate approximating the variable-rate on the obligation, thereby creating the economic equivalent of a fixed-rate obligation. Under the $19.0 million interest rate swap, no payments are made by parties under the swap for monthly periods in which the variable-interest rate is greater than the predetermined knock-out rate.

The following table summarizes the financial terms of our interest rate swap agreements and the fair value of each interest rate swap at January 29, 2005:

Hedging Instrument	Receive Variable	Pay Fixed	Knock-out Rate	Expiration	Fair Value
$19.0 million interest rate swap	LIBOR	4.88%	7.75%	4/1/09	($0.9 million)
$25.0 million interest rate swap	LIBOR	5.43%	N/A	3/12/06	($0.6 million)

Hypothetically, a 1% change in interest rates results in approximately a $0.4 million change in the amount paid or received under the terms of the interest rate swap agreements on an annual basis. Due to many factors, management is not able to predict the changes in fair value of our interest rate swaps. The fair values are the estimated amounts we would pay or receive to terminate the agreements as of the reporting date. These fair values are obtained from an outside financial institution.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Dollar Tree Stores, Inc.:

We have audited the accompanying consolidated balance sheets of Dollar Tree Stores, Inc. and subsidiaries (the Company) as of January 29, 2005 and January 31, 2004, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years ended January 29, 2005 and January 31, 2004, the one-month period ended February 1, 2003, and the year ended December 31, 2002. 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, 2005 and January 31, 2004, and the results of their operations and their cash flows for each of the years ended January 29, 2005 and January 31, 2004, the one-month period ended February 1, 2003 and the year ended December 31, 2002, 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), the effectiveness of the Company's internal control over financial reporting as of January 29, 2005, based on criteria established in *Internal Control—Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 12, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

Effective January 1, 2003, the Company implemented the provisions of Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities,* as described in Note 12.

KPMG LLP

Norfolk, Virginia
April 12, 2005

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)	**Year Ended January 29, 2005**	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002
Net sales	**$3,126,009**	$2,799,872	$160,789	$2,329,188
Cost of sales (Note 12)	**2,013,470**	1,781,459	113,572	1,477,214
Gross profit	**1,112,539**	1,018,413	47,217	851,974
Selling, general and administrative expenses (Notes 8 and 12)	**818,988**	724,816	55,645	598,053
Operating income (loss)	**293,551**	293,597	(8,428)	253,921
Interest income	**3,860**	2,648	389	3,526
Interest expense	**(10,298)**	(8,382)	(719)	(4,519)
Changes in fair value of non-hedging interest rate swaps (Note 6)	**1,057**	889	239	(1,469)
Income (loss) before income taxes and cumulative effect of a change in accounting principle	**288,170**	288,752	(8,519)	251,459
Provision for income taxes (Note 3)	**107,920**	111,169	(3,279)	96,812
Income (loss) before cumulative effect of a change in accounting principle	**180,250**	177,583	(5,240)	154,647
Cumulative effect of a change in accounting principle, net of tax benefit of $3,309 (Note 12)	**—**	—	(5,285)	—
Net income (loss)	**$ 180,250**	$ 177,583	$ (10,525)	$ 154,647
Basic net income (loss) per share (Note 7):				
Income (loss) before cumulative effect of a change in accounting principle	**$ 1.59**	$ 1.55	$ (0.05)	$ 1.36
Cumulative effect of a change in accounting principle	**—**	—	(0.04)	—
Net income (loss)	**$ 1.59**	$ 1.55	$ (0.09)	$ 1.36
Diluted net income (loss) per share (Note 7):				
Income (loss) before cumulative effect of a change in accounting principle	**$ 1.58**	$ 1.54	$ (0.05)	$ 1.35
Cumulative effect of a change in accounting principle	**—**	—	(0.04)	—
Net income (loss)	**$ 1.58**	$ 1.54	$ (0.09)	$ 1.35

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	**January 29, 2005**	January 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 106,532**	$ 84,190
Short-term investments	**211,275**	84,495
Merchandise inventories	**615,483**	525,643
Deferred tax assets (Note 3)	**8,072**	11,716
Prepaid expenses and other current assets (Note 2)	**28,525**	16,525
Total current assets	**969,887**	722,569
Property, plant and equipment, net (Notes 2, 5 and 12)	**685,386**	634,427
Intangibles, net (Notes 2 and 10)	**129,032**	123,738
Other assets, net (Notes 11 and 12)	**8,367**	20,785
TOTAL ASSETS	**$1,792,672**	$1,501,519
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	**$ 19,000**	$ 25,000
Current installments of obligations under capital leases (Note 2)	**12,212**	5,324
Accounts payable	**124,195**	114,972
Other current liabilities (Note 2)	**105,279**	89,959
Income taxes payable	**33,669**	37,035
Total current liabilities	**294,355**	272,290
Long-term debt, excluding current portion (Notes 5 and 12)	**250,000**	142,568
Obligations under capital leases, excluding current installments (Note 2)	**534**	12,259
Deferred tax liabilities (Note 3)	**42,075**	29,717
Other liabilities (Notes 6 and 8)	**41,496**	30,163
Total liabilities	**628,460**	486,997
Shareholders' equity (Notes 6, 7 and 9):		
Common stock, par value $0.01. 300,000,000 shares authorized, 113,020,941 and 114,083,768 shares issued and outstanding at January 29, 2005 and January 31, 2004, respectively	**1,130**	1,141
Additional paid-in capital	**177,684**	208,870
Accumulated other comprehensive loss	**(294)**	(970)
Unearned compensation	**(101)**	(62)
Retained earnings	**985,793**	805,543
Total shareholders' equity	**1,164,212**	1,014,522
Commitments and contingencies	**—**	—
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$1,792,672**	$1,501,519

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

Years Ended January 29, 2005 and January 31, 2004, Month Ended February 1, 2003 and Year Ended December 31, 2002

(In thousands)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Unearned Compensation	Retained Earnings	Share-holders' Equity
Balance at December 31, 2001	112,506	$ 1,125	$ 167,151	$ (378)	$ —	$ 483,838	$ 651,736
Net income for the year ended December 31, 2002	—	—	—	—	—	154,647	154,647
Other comprehensive loss (Note 7)	—	—	—	(995)	—	—	(995)
Total comprehensive income							153,652
Issuance of stock under Employee Stock Purchase Plan and other plans (Note 9)	96	1	2,038	—	—	—	2,039
Exercise of stock options, including income tax benefit of $10,696 (Note 9)	1,633	16	41,117	—	—	—	41,133
Restricted stock issuance and and amortization (Note 9)	9	—	275	—	(117)	—	158
Settlement of merger-related contingencies	(57)	—	6,686	—	—	—	6,686
Balance at December 31, 2002	114,187	1,142	217,267	(1,373)	(117)	638,485	855,404
Net loss for the month ended February 1, 2003	—	—	—	—	—	(10,525)	(10,525)
Other comprehensive income (Note 7)	—	—	—	96	—	—	96
Total comprehensive income							(10,429)
Issuance of stock under Employee Stock Purchase Plan and other plans (Note 9)	32	—	614	—	—	—	614
Exercise of stock options, including income tax benefit of $65 (Note 9)	12	—	225	—	—	—	225
Restricted stock amortization (Note 9)	—	—	—	—	5	—	5
Balance at February 1, 2003	114,231	1,142	218,106	(1,277)	(112)	627,960	845,819
Net income for the year ended January 31, 2004	—	—	—	—	—	177,583	177,583
Other comprehensive income (Note 7)	—	—	—	307	—	—	307
Total comprehensive income							177,890
Issuance of stock under Employee Stock Purchase Plan and other plans (Note 9)	132	1	2,724	—	—	—	2,725
Exercise of stock options, including income tax benefit of $5,620 (Note 9)	994	10	25,060	—	—	—	25,070
Repurchase and retirement of shares (Note 7)	(1,265)	(12)	(38,041)	—	—	—	(38,053)
Restricted stock amortization (Note 9)	—	—	—	—	50	—	50
Settlement of merger-related contingencies	(8)	—	1,021	—	—	—	1,021
Balance at January 31, 2004	114,084	1,141	208,870	(970)	(62)	805,543	1,014,522
Net income for the year ended January 29, 2005	—	—	—	—	—	180,250	180,250
Other comprehensive income (Note 7)	—	—	—	676	—	—	676
Total comprehensive income							180,926
Issuance of stock under Employee Stock Purchase Plan and other plans (Note 9)	139	1	3,285	—	—	—	3,286
Exercise of stock options, including income tax benefit of $2,144 (Note 9)	608	6	13,957	—	—	—	13,963
Repurchase and retirement of shares (Note 7)	(1,810)	(18)	(48,593)	—	—	—	(48,611)
Restricted stock issuance and amortization (Note 9)	—	—	165	—	(39)	—	126
Balance at January 29, 2005	**113,021**	**$1,130**	**$177,684**	**$ (294)**	**$ (101)**	**$985,793**	**$1,164,212**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	**Year Ended January 29, 2005**	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002
Cash flows from operating activities:				
Net income (loss)	**$ 180,250**	$177,583	$ (10,525)	$154,647
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	**129,291**	107,088	7,625	75,633
Loss on disposal of property and equipment	**2,797**	4,015	107	1,599
Cumulative effective of change in accounting principle	**—**	—	5,285	—
Change in fair value of non-hedging interest rate swaps	**(1,057)**	(889)	(239)	1,469
Provision for deferred income taxes	**15,578**	19,681	1,110	16,436
Tax benefit of stock option exercises	**2,144**	5,620	65	10,696
Other non-cash adjustments to net income	**2,113**	1,965	59	316
Changes in assets and liabilities increasing (decreasing) cash and cash equivalents:				
Merchandise inventories	**(89,840)**	(61,166)	(80,774)	(61,192)
Prepaid expenses and other current assets	**(395)**	(428)	(3,689)	6,707
Other assets	**929**	(1,424)	(679)	(999)
Accounts payable	**9,223**	(29,135)	78,217	1,361
Income taxes payable	**(3,366)**	16,910	(4,493)	(10,807)
Other current liabilities	**15,320**	4,655	(12,225)	16,317
Other liabilities	**13,502**	(745)	(3,185)	2,011
Net cash provided by (used in) operating activities	**276,489**	243,730	(23,341)	214,194
Cash flows from investing activities:				
Capital expenditures	**(181,782)**	(236,761)	(12,243)	(143,444)
Purchase of Greenbacks, Inc., net of cash acquired of $1,250	**—**	(100,523)	—	—
Purchase of short-term investments	**(465,815)**	(150,640)	(21,745)	(246,580)
Proceeds from sales of short-term investments	**339,035**	208,570	2,000	220,765
Acquisition of favorable lease rights	**(6,845)**	(105)	—	(813)
Investment in Ollie's Holdings, Inc.	**—**	(4,000)	—	—
Proceeds from the sale of property and equipment	**—**	35	—	216
Settlement of merger-related contingencies	**—**	1,021	—	6,686
Net cash used in investing activities	**(315,407)**	(282,403)	(31,988)	(163,170)
Cash flows from financing activities:				
Proceeds from long-term debt, net of facility fees of $1,094 in 2004	**248,906**	39,700	—	—
Repayment of long-term debt	**(148,568)**	(51,367)	—	(6,025)
Principal payments under capital lease obligations	**(5,572)**	(7,994)	(335)	(3,971)
Payments for share repurchases	**(48,611)**	(38,053)	—	—
Proceeds from stock issued pursuant to stock-based compensation plans	**15,105**	22,175	774	32,476
Net cash provided by (used in) financing activities	**61,260**	(35,539)	439	22,480
Net increase (decrease) in cash and cash equivalents	**22,342**	(74,212)	(54,890)	73,504
Cash and cash equivalents at beginning of period	**84,190**	158,402	213,292	139,788
Cash and cash equivalents at end of period	**$ 106,532**	$ 84,190	$158,402	$213,292
Supplemental disclosure of cash flow information:				
Cash paid for:				
Interest, net of amount capitalized	**$ 8,117**	$ 7,252	$ 195	$ 3,685
Income taxes	**$ 93,395**	$ 70,172	$ 110	$ 82,420

Supplemental disclosure of non-cash investing and financing activities:

The Company purchased equipment under capital lease obligations amounting to $484, $2,134 and $2,177 in the years ended January 29, 2005, January 31, 2004 and December 31, 2002, respectively. The Company did not purchase any equipment under capital leases in the month ended February 1, 2003.

As described in Note 10, the Company acquired Greenbacks, Inc. in 2003. In conjunction with the acquisition, the Company assumed liabilities of $17,886.

As described in Note 12, the Company consolidated its variable-interest entity effective January 1, 2003. As a result, the Company recorded the following on January 1, 2003: an increase of $128,791 in net property and equipment; an increase of $970 for deferred financing costs in other assets; and an increase of $140,628 in long-term debt. The cumulative effect of a change in accounting principle represents, net of the tax effect of $3,309, the historical depreciation related to the distribution center assets and, the historical amortization of the deferred financing costs recognized previously by the variable-interest entity and the write-off of a deferred rent liability related to the lease.

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except number of stores, share and per share data)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

At January 29, 2005, Dollar Tree Stores, Inc. (DTS or the Company) owned and operated 2,735 discount variety retail stores that sell substantially all items for $1.00 or less. The Company's stores operate under the names of Dollar Tree, Dollar Bills, Dollar Express, Only One Dollar, and Only $One. Our stores average approximately 7,475 selling square feet.

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

Principles of Consolidation

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

Fiscal Year

The Company's fiscal year was a calendar year in 2002. The Company changed its fiscal year end from December 31 to the Saturday closest to January 31, effective for the fiscal year beginning February 2, 2003 and ending January 31, 2004. The one-month period of January 1, 2003 through February 1, 2003 (the Transition Period) is presented separately in these consolidated financial statements. Unless specifically indicated otherwise, any reference herein to "2004" or "Fiscal 2004" and "2003" or "Fiscal 2003" relates to as of or for the years ended January 29, 2005 and January 31, 2004, respectively. Any references to "2002" or "Fiscal 2002" relate to as of or for the year ended December 31, 2002.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Lease Accounting

The Company recognized a one-time non-cash, after-tax adjustment of $5,751, or $0.05 per diluted share, in the fourth quarter of 2004 to reflect the cumulative impact of a correction of its accounting practices related to leased properties. Of the aforementioned amount, approximately $1,230 million, or $0.01 per diluted share, relates to the current year. Consistent with industry practices, in prior periods, the Company had reported its straight line expenses for leases beginning on the earlier of the store opening date or the commencement date of the lease. This had the effect of excluding the pre-opening or build-out period of its stores (generally 60 days) from the calculation of the period over which it expenses rent. In addition, amounts received as tenant allowances were reflected in the balance sheet as a reduction to store leasehold improvement costs instead of being classified as deferred lease credits. The adjustment made to correct these practices does not affect historical or future net cash flows or the timing of payments under related leases. Rather, this change affected the classification of costs on the statement of operations and cash flows by increasing depreciation and decreasing rent expense, which is included in cost of sales. In addition, fixed assets and deferred liabilities increased due to the net cumulative unamortized allowances and abatements.

Reclassifications

Certain 2003 and 2002 amounts have been reclassified for comparability with the current period presentation, including the reclasses noted in the lease accounting discussion above.

Cash and Cash Equivalents

Cash and cash equivalents at January 29, 2005 and January 31, 2004 includes $75,885 and $54,081, respectively, of investments in money market securities and bank participation agreements which are valued at cost, which approximates market. The underlying assets of these short-term participation agreements are primarily commercial notes. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Short-Term Investments

The Company's short-term investments consist primarily of government-sponsored municipal bonds and auction rate securities. These investments are classified as available for sale and are recorded at fair value. The government-sponsored municipal bonds can be converted into cash with one or seven day notice. The auction rate securities have stated interest rates, which typically reset to market prevailing rates every 35 days or less. The securities underlying both the government-sponsored municipal bonds and the auction rate securities have longer legal maturity dates. Prior to the end of fiscal 2004, the Company classified a portion of these investments in cash and cash equivalents due to their liquidity. Prior period information was reclassified, including the impact on cash flow from investing activities, to conform to the current year presentation. There was no impact on net income or cash flow from operating activities as a result of the reclassification.

Merchandise Inventories

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

Costs directly associated with warehousing and distribution are capitalized as merchandise inventories. Total warehousing and distribution costs capitalized into inventory amounted to $27,968 and $24,510 at January 29, 2005 and January 31, 2004, 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 years
Furniture, fixtures and equipment	3 to 15 years
Transportation vehicles	4 to 6 years

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

In the fourth quarter of 2004, the Company revised its estimate of useful lives on certain store equipment and distribution center assets. This change will increase net income by approximately $3,700 in the first three quarters of 2005 as compared to 2004.

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

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

The Company reviews its long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by 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 2004 and 2003, the Company recorded charges of $531 and $234, respectively,

to write down certain assets. No charges were recorded in the month ended February 1, 2003 or the year ended December 31, 2002. These charges are recorded as a component of "selling, general and administrative expenses" in the accompanying consolidated statements of operations.

Intangible Assets

Goodwill and intangible assets with indefinite useful lives are not amortized, but rather tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144. The Company performs its annual assessment of impairment following the finalization of each November's financial statements.

Financial Instruments

The Company utilizes derivative financial instruments to reduce its exposure to market risks from changes in interest rates. By entering into receive-variable, pay-fixed interest rate swaps, the Company limits its exposure to changes in variable interest rates. The Company is exposed to credit related losses in the event of non-performance by the counterparty to the interest rate swaps; however, the counterparties are major financial institutions, and the risk of loss due to non-performance is considered remote. Interest rate differentials paid or received on the swap are recognized as adjustments to expense in the period earned or incurred. The Company formally documents all hedging relationships, if applicable, and assesses hedge effectiveness both at inception and on an ongoing basis.

As of January 29, 2005, one of the Company's interest rate swaps does not qualify for hedge accounting treatment pursuant to the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result, this interest rate swap is recorded at its fair value in the consolidated balance sheets as a component of "other liabilities" (see Note 6). During fiscal 2004, two additional interest rate swaps that did not qualify for hedge accounting expired. Changes in the fair values of these three interest rate swaps are recorded as "change in the fair value of non-hedging interest rate swaps" in the accompanying consolidated statements of cash flows and the consolidated statements of operations.

The Company is party to one interest rate swap that qualifies for hedge accounting treatment pursuant to the provisions of SFAS No. 133. Accordingly, the liability is recorded at fair value in the accompanying consolidated balance sheets and changes in the fair value are recorded as a component of "accumulated other comprehensive loss." These amounts are subsequently reclassified into earnings as a yield adjustment in the period in which the related interest on the variable-rate obligations affects earnings. If the swap is terminated prior to its expiration date, the amount recorded in accumulated other comprehensive loss will be recorded as a yield adjustment over the term of the forecasted transaction.

Revenue Recognition

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

Cost of Sales

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

Pre-Opening Costs

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

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising costs approximated $11,042 and $5,681 for the years ended January 29, 2005 and January 31, 2004, respectively, and $789 in the month ended February 1, 2003. The Company did not incur significant advertising costs in the year ended December 31, 2002.

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.

Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations in accounting for its fixed stock option plans. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure only requirements of SFAS No. 123.

If the accounting provisions of SFAS No. 123 had been adopted, the Company's net income (loss) and net income (loss) per share would have been as indicated in the following table:

	Year Ended January 29, 2005	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002
Net income (loss) as reported	**$ 180,250**	$177,583	$(10,525)	$154,647
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	**13,007**	13,181	1,108	12,625
Net income (loss) under SFAS No. 123	**$ 167,243**	$164,402	$(11,633)	$142,022
Net income (loss) per share:				
Basic, as reported	**$ 1.59**	$ 1.55	$ (0.09)	$ 1.36
Basic, pro forma under SFAS No. 123	**$ 1.48**	$ 1.43	$ (0.10)	$ 1.25
Diluted, as reported	**$ 1.58**	$ 1.54	$ (0.09)	$ 1.35
Diluted, pro forma under SFAS No. 123	**$ 1.47**	$ 1.43	$ (0.10)	$ 1.24

These pro forma amounts for SFAS No. 123 may not be representative of future disclosures because compensation cost is reflected over the options' vesting periods and because additional options may be granted in future years.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). This statement is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Under the provisions of this statement, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include retrospective and prospective adoption methods. Under the retrospective method, prior periods may be restated based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either for all periods presented or as of the beginning of the year of adoption.

The prospective method requires that compensation expense be recognized beginning with the effective date, based on the requirements of this statement, for all share-based payments granted after the effective date, and based on the requirements of SFAS No. 123, for all awards granted to employees prior to the effective date of this statement that remain unvested on the effective date.

The provisions of this statement are effective for fiscal 2006 and the Company is currently evaluating the requirements of this revision and has not determined the method of adoption.

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

Intangibles, Net

Intangibles, net, as of January 29, 2005 and January 31, 2004 consist of the following:

	January 29, 2005	January 31, 2004
Non-competition agreements	**$ 6,398**	$ 6,398
Accumulated amortization	**(3,475)**	(2,685)
Non-competition agreements, net	**2,923**	3,713
Favorable lease rights	**9,034**	2,189
Accumulated amortization	**(1,567)**	(806)
Favorable lease rights, net	**7,467**	1,383
Goodwill	**130,271**	130,271
Accumulated amortization	**(11,629)**	(11,629)
Goodwill, net	**118,642**	118,642
Total intangibles, net	**$ 129,032**	$123,738

Non-Competition Agreements

The Company issued stock options to certain former shareholders of an acquired entity in exchange for non-competition agreements and a consulting agreement. These assets are being amortized over the legal term of the individual agreements. A portion of these agreements was amortized over five years and as of January 29, 2005, these are fully amortized. One remaining agreement is being amortized over a 10-year period. In addition, in 2003, the Company entered into non-competition agreements with former executives of Greenbacks, Inc. which are being amortized over five years (see Note 10).

Favorable Lease Rights

In 2004 and 2002, the Company acquired favorable lease rights for operating leases for retail locations from third parties. In addition, in 2003, the Company acquired favorable lease rights in its acquisition of Greenbacks, Inc. (see Note 10). The Company's favorable lease rights are amortized on a straight-line basis to rent expense over the remaining initial lease terms, which expire at various dates through 2016.

Amortization expense related to the non-competition agreements and favorable lease rights was $1,551, $1,300, $40 and $746 for the years ended January 29, 2005 and January 31, 2004, the one-month period ended February 1, 2003 and the year ended December 31, 2002, respectively. Estimated annual amortization expense for the next five years follows: 2005 - $2,617; 2006 - $2,508; 2007 - $2,470; 2008 - $1,253; and 2009 - $477.

Goodwill

In accordance with SFAS No. 142, goodwill is no longer being amortized, but is tested at least annually for impairment. In addition, goodwill will be tested on an interim basis if an event or circumstance indicates that it is more likely than not that an impairment loss has been incurred. The Company performed its annual impairment testing in November 2004 and determined that no impairment loss existed.

Property, Plant and Equipment, Net

Property, plant and equipment, net, as of January 29, 2005 and January 31, 2004 consists of the following:

	January 29, 2005	January 31, 2004
Land	**$ 28,867**	$ 16,807
Buildings	**171,980**	105,558
Improvements	**348,561**	288,189
Furniture, fixtures and equipment	**549,051**	441,259
Transportation vehicles	**1,868**	3,492
Construction in progress	**20,352**	107,703
Total property, plant and equipment	**1,120,679**	963,008
Less: accumulated depreciation and amortization	**435,293**	328,581
Total property, plant and equipment, net	**$ 685,386**	$634,427

Other Current Liabilities

Other current liabilities as of January 29, 2005 and January 31, 2004 consist of accrued expenses for the following:

	January 29, 2005	January 31, 2004
Compensation and benefits	**$ 23,384**	$25,435
Taxes (other than income taxes)	**11,992**	10,450
Insurance	**29,112**	25,398
Other	**40,791**	28,676
Total other current liabilities	**$105,279**	$89,959

Capital Leases

The present value of future minimum capital lease payments as of January 29, 2005 is as follows:

2005	$13,081
2006	279
2007	183
2008	115
2009	51
Total minimum lease payments	13,709
Less: amount representing interest (at an average rate of approximately 10.9%)	963
Present value of net minimum capital lease payments	12,746
Less current installments of obligations under capital leases	12,212
Obligations under capital leases, excluding current installments	$ 534

Included in property, plant and equipment at January 29, 2005 and January 31, 2004 are leased furniture and fixtures and transportation vehicles, excluding sale-leaseback assets, with a cost of $4,465 and $5,641, respectively. Accumulated depreciation on these assets totaled $2,964 and $3,370 at January 29, 2005 and January 31, 2004, respectively.

Sale-Leaseback Transaction

On September 30, 1999, the Company sold certain retail store leasehold improvements to an unrelated third party and leased them back for a period of seven years. This transaction is being accounted for as a financing arrangement. In 2004, the Company exercised the right to purchase the leasehold improvements at September 30, 2005. In order to exercise this right, the Company's lease obligation increased by $200. The total amount of the lease obligation, including this $200, at January 29, 2005 was $11,735. The lease agreement includes financial covenants that are not more restrictive than those of existing loan agreements. As part of the transaction, the Company received proceeds of $20,880, net of financing costs, and an $8,120 11% note receivable, which matures in September 2005 and is included in "other assets, net." The future minimum lease payments related to the capital lease obligation are included in the schedule above.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, short-term investments, prepaid expenses, other current assets, accounts payable and other current liabilities approximate fair value because of the short maturity of these instruments. The carrying values of other liabilities, excluding interest rate swaps, approximate fair value because they are recorded using discounted future cash flows or quoted market rates.

The carrying value of the Company's variable-rate and fixed-rate long-term debt approximates its fair value. The fair value is estimated by discounting the future cash flows of each instrument at rates offered for similar debt instruments of comparable maturities.

It is not practicable to estimate the fair value of our outstanding commitments for letters of credit and surety bonds without unreasonable cost.

The fair value of the interest rate swaps (see Note 6) are the estimated amounts the Company would pay to terminate the agreements as of the reporting date. The fair value of the liabilities associated with interest rate swaps at January 29, 2005 and January 31, 2004, are as follows:

	January 29, 2005	January 31, 2004
$25,000 interest rate swap	**$ 655**	$1,767
$19,000 interest rate swap	**893**	1,687
$10,000 interest rate swap	**—**	183
$5,000 interest rate swap	**—**	81
	$1,548	$3,718

The fair values of the interest rate swaps are included in "other liabilities" in the accompanying consolidated balance sheets. The $10,000 and $5,000 interest rate swaps expired during fiscal 2004.

NOTE 3 – INCOME TAXES

Total income taxes were allocated as follows:

	Year Ended January 29, 2005	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002
Income (loss) from continuing operations	**$ 107,920**	$111,169	$(3,279)	$96,812
Cumulative effect of a change in accounting principle	**—**	—	(3,309)	—
Accumulated other comprehensive (income) loss, marking derivative financial instruments to fair value	**424**	192	61	(633)
Stockholders' equity, tax benefit on exercise of stock options	**(2,144)**	(5,620)	(65)	(10,696)
	$ 106,200	$105,741	$(6,592)	$85,483

The provision for income taxes consists of the following:

	Year Ended January 29, 2005	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002
Federal - current	**$ 75,785**	$ 76,017	$(3,778)	$69,003
Federal - deferred	**15,861**	19,465	956	14,141
State - current	**16,557**	15,471	(611)	11,373
State - deferred	**(283)**	216	154	2,295
	$ 107,920	$111,169	$(3,279)	$96,812

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

	Year Ended January 29, 2005	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002
Statutory tax rate	**35.0%**	35.0%	35.0%	35.0%
Effect of:				
State and local income taxes, net of federal income tax benefit	**3.6**	3.5	3.5	3.5
Other, net	**(1.1)**	—	—	—
Effective tax rate	**37.5%**	38.5%	38.5%	38.5%

The rate reduction in "Other, net" in the above table consists primarily of a one-time tax benefit for the resolution of a tax uncertainty in 2004.

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

	Year Ended January 29, 2005	Year Ended January 31, 2004
Deferred tax assets:		
Accrued expenses and other liabilities principally due to differences in the timing of deductions for reserves	**$ 14,744**	$ 16,836
Other	**169**	1,092
Total deferred tax assets	**14,913**	17,928
Deferred tax liabilities:		
Intangible assets due to differences in amortization methods and lives	**(6,963)**	(6,169)
Deferred compensation primarily due to timing of contributions to the profit sharing plan	**(855)**	(1,087)
Property and equipment due to difference in depreciation and amortization methods and lives	**(39,435)**	(27,864)
Other	**(1,663)**	(809)
Total deferred tax liabilities	**(48,916)**	(35,929)
Net deferred tax liability	**$ (34,003)**	$(18,001)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred taxes will not be realized. Based upon the availability of carrybacks of future deductible amounts to the past two years' taxable income and management's projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the existing deductible temporary differences will reverse during periods in which carrybacks are available or in which the Company generates net taxable income. However, there can be no assurance that the Company will generate any income or any specific level of continuing income in future years.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

Future minimum lease payments under noncancelable store, distribution center and former corporate headquarters operating leases (including leases with related parties) are as follows:

2005	$216,874
2006	188,638
2007	156,280
2008	119,189
2009	83,555
Thereafter	150,413
Total minimum lease payments	$914,949

The above future minimum lease payments include amounts for leases that were signed prior to January 29, 2005 for stores that were not open as of January 29, 2005.

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 $1,239 under operating leases.

Minimum and Contingent Rentals

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

	Year Ended January 29, 2005	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002
Minimum rentals	**$200,718**	$167,127	$12,410	$138,656
Contingent rentals	**899**	1,229	1	1,277

Non-Operating Facilities

The Company is responsible for payments under leases for two former distribution center and certain closed stores. The leases for the two distribution centers expire in June 2005 and September 2005. The Company accounts for abandoned lease facilities in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. Facilities are considered abandoned on the date that the Company ceases to use the facility. On this date, the Company records an expense for the present value of the total remaining costs for the abandoned facility reduced by any actual or probable sublease income. Due to the uncertainty regarding the ultimate recovery of the future lease and related payments, the Company recorded charges of $1,472, $470 and $364 in 2004, 2003 and 2002, respectively. There was no charge recorded in the month ended February 1, 2003. The total accrual for these vacated facilities was $1,472 and $2,171 at January 29, 2005 and January 31, 2004, respectively.

Related Parties

The Company also leases properties for six of its stores from partnerships owned by related parties. The total rental payments related to these leases were $484, $469, $31 and $1,222 for the years ended January 29, 2005 and January 31, 2004, the month ended February 1, 2003 and the year ended December 31, 2002, respectively.

Freight Services

The Company has contracted outbound freight services from various contract carriers with contracts expiring through January 2007. The total amount of these commitments is approximately $35,500, of which approximately $25,500 is committed in 2005 and $10,000 is committed in 2006.

Technology Assets

The Company has commitments totaling approximately $5,831 to purchase store technology assets for its stores during 2005.

Letters of Credit

In March 2001, the Company entered into a Letter of Credit Reimbursement and Security Agreement. The agreement provides $125,000 for letters of credit, which are generally issued for the routine purchase of imported merchandise. Approximately $88,941 of this agreement was committed to letters of credit at January 29, 2005.

The Company also has approximately $37,735 in letters of credit that serve as collateral for its high-deductible insurance programs and expire in fiscal 2005.

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 $2,275, which is committed through various dates through 2008.

Contingencies

The Company was sued in California in 2003 by a former employee who alleged that employees did not properly receive sufficient meal period breaks and paid rest periods. He also alleged other wage and hourly violations. The suit requests that the California state court certify the case as a class action. In 2005, the Company was threatened with a suit by former employees in Oregon who allege that they did not properly receive sufficient meal period breaks and paid rest periods. They also allege other wage and hour violations. The Company anticipates that they will request the Oregon state court to certify the case as a class action.

The Company was sued by Mag Instrument (Mag) for damages, including treble damages, for the sale of 850,000 to 1,000,000 flashlights. The United States District Court in California has ruled that the flashlights infringe Mag's patent. The Company intends to appeal this ruling. Mag also claims that the flashlights infringe its trademark. Mag Instrument's damage expert claims that Mag is owed at least $4.16 for each unit the Company sold, plus enhanced or treble damages as well as its attorney's fees. The Company believes that Mag has significantly overstated its damage estimate and that it is not entitled to an award of treble damages or attorney's fees.

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

NOTE 5 – LONG-TERM DEBT

Long-term debt at January 29, 2005 and January 31, 2004 consists of the following:

	January 29, 2005	January 31, 2004
$450,000 Unsecured Revolving Credit Facility, interest payable monthly at LIBOR, plus 0.475%, which was 3.0% at January 29, 2005, principal payable upon expiration of the facility in March 2009	**$250,000**	$ —
Demand Revenue Bonds, interest payable monthly at a variable rate which was 2.57% at January 29, 2005, principal payable on demand, otherwise beginning June 2006 and maturing June 2018	**19,000**	19,000
Variable-rate debt, interest payable monthly at LIBOR, principal payable upon maturity in March 2006, repaid in March 2004	**—**	142,568
7.29% unsecured Senior Notes, interest payable semiannually on April 30 and October 30, matured April 2004	**—**	6,000
Total long-term debt	**269,000**	167,568
Less: current portion	**19,000**	25,000
Long-term debt, excluding current portion	**$250,000**	$142,568

Maturities of long-term debt are as follows: 2005 - $19,000 and 2009 - $250,000.

Unsecured Revolving Credit Facility

In March 2004, the Company entered into a five-year Unsecured Revolving Credit Facility (the Facility). The Facility provides for a $450,000 revolving line of credit, including up to $50,000 in available letters of credit, bearing interest at LIBOR, plus 0.475%. The Facility also bears an annual facilities fee, calculated as a percentage, as defined, of the amount available under the line of credit and an annual administrative fee payable quarterly. The Facility, among other things, requires the maintenance of certain specified financial ratios restricts the payment of certain distributions and prohibits the incurrence of certain new indebtedness. The Company used availability under the Facility to repay the $142,568 of variable-rate debt and to purchase short-term, state and local government-sponsored municipal bonds. The Company's $150,000 revolving credit facility (Old Facility) was terminated concurrent with entering into the Facility. The net debt issuance costs related to the Old Facility and the variable-rate debt, included in "other assets, net" on the January 31, 2004 consolidated balance sheet totaling $727, were charged to interest expense in 2004.

Demand Revenue Bonds

On May 20, 1998, the Company entered into a 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 $19,000 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 are secured by a $19,300 letter of credit issued by

one of the Company's existing lending banks. The letter of credit is renewable annually. The Letter of Credit and Reimbursement Agreement requires, among other things, the maintenance of certain specified ratios and restricts the payment of dividends. The Bonds contain a demand provision and, therefore, are classified as current liabilities.

Variable-Rate Debt

As indicated in Note 12, in 2001, the Company entered into an operating lease facility with a variable interest entity. Effective with the implementation of Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46), the Company consolidated the variable interest entity. As a result, the balance sheet at January 31, 2004 includes the debt incurred by the variable interest entity to construct the Company's distribution center assets. This debt was repaid in 2004 with proceeds from the Facility.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of interest rate swaps at January 29, 2005 and January 31, 2004, is approximately $1,548 and $3,718, respectively, and is recorded in "other liabilities" on the accompanying consolidated balance sheets.

Non-Hedging Derivatives

At January 29, 2005, the Company was party to a derivative instrument in the form of an interest rate swap that does not qualify for hedge accounting treatment pursuant to the provisions of SFAS No. 133 because it contains a knock-out provision. The swap creates the economic equivalent of a fixed rate obligation by converting the variable-interest rate to a fixed rate. Under this interest rate swap, the Company pays interest to a financial institution at a fixed rate, as defined in the agreement. In exchange, the financial institution pays the Company at a variable-interest rate, which approximates the floating rate on the variable-rate obligation, excluding the credit spread. The interest rate on the swap is subject to adjustment monthly. No payments are made by either party for months in which the variable-interest rate, as calculated under the swap agreement, is greater than the "knock-out rate." The following table summarizes the terms of the interest rate swap:

Derivative Instrument	Origination Date	Expiration Date	Pay Fixed Rate	Knock-out Rate
$19,000 swap	4/1/99	4/1/09	4.88%	7.75%

The $19,000 swap reduces the Company's exposure to the variable-interest rate related to the Demand Revenue Bonds (see Note 5).

At January 31, 2004, the Company had a $10,000 and a $5,000 interest rate swap that did not qualify for hedge accounting. These swaps expired in fiscal 2004.

Hedging Derivative

The Company is party to one derivative instrument in the form of an interest rate swap that qualifies for hedge accounting treatment pursuant to the provisions of SFAS No. 133.

In 2001, the Company entered into a $25,000 interest rate swap agreement (swap) to manage the risk associated with interest rate fluctuations on a portion of the Company's variable-interest entity debt. In March 2004, the Company repaid all of the variable-interest entity debt with borrowings from the Facility (see Note 5). The Company redesignated this swap to borrowings under the Facility. This redesignation does not affect the accounting treatment used for this interest rate swap. The swap creates the economic equivalent of fixed-rate debt by converting the variable-interest rate to a fixed-rate. Under this agreement, the Company pays interest to a financial institution at a fixed-rate of 5.43%. In exchange, the financial institution pays the Company at a variable-interest rate, which approximates the floating rate on the debt, excluding the credit spread. The interest rate on the swap is subject to adjustment monthly consistent with the interest rate adjustment on the debt. The swap is effective through March 2006.

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, 2005, January 31, 2004, February 1, 2003 and December 31, 2002.

Net Income (Loss) Per Share

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

	Year Ended January 29, 2005	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002
Basic net income (loss) per share:				
Income (loss) before accounting change	**$ 180,250**	$177,583	$ (5,240)	$154,647
Cumulative effect of a change in accounting principle, net of tax benefit of $3,309	**—**	—	(5,285)	—
Net income (loss)	**$ 180,250**	$177,583	$(10,525)	$154,647
Weighted average number of shares outstanding	**113,296**	114,641	114,224	113,637
Basic income (loss) before accounting change per share	**$ 1.59**	$ 1.55	$ (0.05)	$ 1.36
Cumulative effect of a change in accounting principle per share	**—**	—	(0.04)	—
Basic net income (loss) per share	**$ 1.59**	$ 1.55	$ (0.09)	$ 1.36
Diluted net income (loss) per share:				
Income (loss) before accounting change	**$ 180,250**	$177,583	$ (5,240)	$154,647
Cumulative effect of a change in accounting principle, net of tax benefit of $3,309	**—**	—	(5,285)	—
Net income (loss)	**$ 180,250**	$177,583	$(10,525)	$154,647
Weighted average number of shares outstanding	**113,296**	114,641	114,224	113,637
Dilutive effect of stock options and restricted stock (as determined by applying the treasury stock method)	**690**	940	437	910
Weighted average number of shares and dilutive potential shares outstanding	**113,986**	115,581	114,661	114,547
Diluted income (loss) before accounting change per share	**$ 1.58**	$ 1.54	$ (0.05)	$ 1.35
Cumulative effect of a change in accounting principle per share	**—**	—	(0.04)	—
Diluted net income (loss) per share	**$ 1.58**	$ 1.54	$ (0.09)	$ 1.35

At January 29, 2005, January 31, 2004, February 1, 2003 and December 31, 2002, respectively, 1,457,329, 203,015, 2,171,350 and 1,704,153 stock options are not included in the calculation of the weighted average number of shares and dilutive potential shares outstanding because their effect would be anti-dilutive.

Comprehensive Income (Loss)

The Company's comprehensive income (loss) reflects the effect of recording derivative financial instruments pursuant to SFAS No. 133. The following table provides a reconciliation of net income (loss) to total comprehensive income (loss):

	Year Ended January 29, 2005	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2004
Net income (loss)	**$180,250**	$177,583	$(10,525)	$154,647
Fair value adjustment-derivative cash flow hedging instrument	**1,113**	475	155	(1,652)
Income tax benefit (expense)	**(429)**	(183)	(60)	642
Fair value adjustment, net of tax	**684**	292	95	(1,010)
Amortization of SFAS No. 133 cumulative effect	**(13)**	24	2	24
Income tax benefit (expense)	**5**	(9)	(1)	(9)
Amortization of SFAS No. 133 cumulative effect, net of tax	**(8)**	15	1	15
Total comprehensive income (loss)	**$180,926**	$177,890	$(10,429)	$153,652

The cumulative effect recorded in "accumulated other comprehensive loss" is being amortized over the remaining lives of the related interest rate swaps.

Share Repurchase Programs

In November 2002, the Company's Board of Directors authorized the repurchase of up to $200,000 of the Company's common stock. Stock repurchases were to be made until November 2005 either in the open market or through privately negotiated transactions. During fiscal 2004, the Company repurchased 1,809,953 shares for approximately $48,611.

In March 2005, the Company's Board of Directors authorized the repurchase of up to $300,000 of the Company's common stock during the next three years. The previous November 2002 authorization was concurrently terminated. As of the termination date, the Company had repurchased 5,065,495 shares for approximately $141,965 under the November 2002 authorization. As of April 13, 2005, the Company had repurchased 2,048,900 shares for approximately $55,596 under the March 2005 authorization.

NOTE 8 – EMPLOYEE BENEFIT PLANS

Profit Sharing and 401(k) Retirement Plan

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

Contributions to and reimbursements by the Company of expenses of the plans included in the accompanying consolidated statements of operations were as follows:

Year Ended January 29, 2005	**$8,530**
Year Ended January 31, 2004	10,964
Month Ended February 1, 2003	755
Year Ended December 31, 2002	9,862

Deferred Compensation Plan

The Company has a deferred compensation plan which provides certain highly compensated employees and executives the ability to defer a portion of their base compensation and bonuses and earn interest on their deferred amounts. The plan is an unfunded nonqualified plan; however, the Company may make discretionary contributions. The deferred amounts and earnings thereon are payable to participants, or designated beneficiaries, at specified future dates, upon retirement or death. Total cumulative participant deferrals were approximately $1,516 and $1,718, respectively, at January 29, 2005 and January 31, 2004 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 made no discretionary contributions in the years ended January 29, 2005 and January 31, 2004, the month ended February 1, 2003 or in the year ended December 31, 2002.

NOTE 9 – STOCK-BASED COMPENSATION PLANS

At January 29, 2005, the Company has eight stock-based compensation plans. Each plan and the accounting method are described below.

Fixed Stock-Option Compensation Plans

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

Under the 1995 Stock Incentive Plan (SIP), the Company may grant options to its employees for up to 12,600,000 shares of Common Stock. The exercise price of each option equals the market price of the Company's stock at the date of grant, unless a higher price is 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. In exchange for their options to purchase Dollar Express Common Stock, certain employees of Dollar Express were granted 228,072 options to purchase the Company's common stock based on an exchange ratio of 0.8772. Options issued in connection with the merger were fully vested as of the date of the merger. This plan was terminated on July 1, 2003 and replaced with the Company's 2003 Equity Incentive Plan, discussed below.

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

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

The 2003 Equity Incentive Plan (EIP) replaces the Company's SIP discussed above. Under the EIP, the Company may grant up to 6,000,000 shares of its Common Stock, plus any shares available for future awards under the SIP, to the Company's employees, including executive officers and independent contractors. The EIP permits the Company to grant equity awards in the form of stock options, stock appreciation rights and restricted stock. The exercise price of each stock option granted equals the market price of the Company's stock at the date of grant. The options generally vest over a three-year period and have a maximum term of 10 years.

The 2004 Executive Officer Equity Plan (EOEP) is available only to the Chief Executive Officer and certain other executive officers. These officers no longer receive awards under the EIP. The EOEP allows the Company to grant the same type of equity awards as does the EIP. These awards generally vest over a five-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 awarded is subject to certain general restrictions. The restricted stock shares may not be sold, transferred, pledged or disposed of until the restrictions on the shares have lapsed or have been removed under the provisions of the plan. In addition, if a holder of the restricted shares ceases to be employed by the Company, any shares in which the restrictions have not lapsed will be forfeited.

The 2003 Non-Employee Director Stock Option Plan provides non-qualified stock options to non-employee members of the Company's Board of Directors. The stock options are functionally equivalent to such options issued under the EIP discussed above. The exercise price of each stock option granted equals the market price of the Company's stock at the date of grant. The options generally vest immediately.

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

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

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Expected term in years	**5.3**	5.4	5.7
Expected volatility	**59.8%**	60.7%	63.8%
Annual dividend yield	**—**	—	—
Risk free interest rate	**3.7%**	3.4%	3.0%

The following tables summarize the Company's various option plans as of January 29, 2005, January 31, 2004, February 1, 2003 and December 31, 2002 and for the years ended January 29, 2005 and January 31, 2004, the month ended February 1, 2003, and the year ended December 31, 2002, and information about fixed options outstanding at January 29, 2005:

Stock Option Activity

	January 29, 2005		January 31, 2004		February 1, 2003		December 31, 2002	
	Shares	**Weighted Average Per Share Exercise Price**	Shares	Weighted Average Per Share Exercise Price	Shares	Weighted Average Per Share Exercise Price	Shares	Weighted Average Per Share Exercise Price
Outstanding, beginning of period	**6,007,471**	**$23.81**	5,414,023	$24.19	5,440,547	$24.17	5,683,827	$20.39
Granted	**1,682,572**	**25.52**	1,904,057	20.54	6,000	25.26	1,723,000	31.54
Exercised	**(608,432)**	**19.58**	(993,841)	19.57	(12,402)	12.93	(1,632,942)	18.64
Forfeited	**(534,192)**	**25.90**	(316,768)	24.01	(20,122)	25.89	(333,338)	25.02
Outstanding, end of period	**6,547,419**	**24.47**	6,007,471	23.81	5,414,023	24.19	5,440,547	24.17
Options exercisable at end of period	**3,282,102**	**24.52**	2,649,188	24.31	2,340,921	21.84	2,343,879	21.77
Weighted average fair value of options granted during the period		**$14.27**		$17.08		$15.24		$18.66

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding at January 29, 2005	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at January 29, 2005	Weighted Average Exercise Price
0.86	15,923	(1)	$ 0.86	15,923	$ 0.86
$2.95 to $10.98	67,208	2.2	9.43	67,208	9.43
$10.99 to $21.28	2,073,488	7.2	19.21	951,914	18.59
$21.29 to $29.79	2,951,662	7.0	24.83	1,337,427	24.27
$29.80 to $42.56	1,439,138	6.9	32.29	909,630	32.61
$0.86 to $42.56	6,547,419			3,282,102	

(1) Represents options granted under the SOP in 1993 and 1994. These options have no expiration date.

Restricted Stock

In 2002, the Company adopted a restricted stock plan, under which a maximum of 4,500 shares of common stock may be awarded to certain employees with no cash payments required by the recipient. Under this plan, the Company awarded 4,500 shares of common stock to an employee during 2002, which vest ratably over a three-year period. The $150 market value of the shares awarded was recorded as unearned compensation and is shown as a separate component of shareholders' equity. The unearned compensation is being amortized to compensation expense over the three-year vesting period.

In 2004, the Company awarded an employee 5,000 restricted stock units from the 2003 Equity Incentive Plan, which vest ratably over a five-year period. The $165 market value of the units awarded was recorded as unearned compensation and is shown as a separate component of shareholders' equity. The unearned compensation is being amortized to compensation expense over the five-year vesting period.

Total amortization for these awards for the years ended January 29, 2005 and January 31, 2004, the one-month period ended February 1, 2003 and the year ended December 2002 was approximately $126, $50, $5 and $33, respectively.

In 2002, the Company issued 4,000 shares of restricted stock to non-employees in recognition of past services provided to the Company. The shares vested immediately upon issuance. The market value of the shares awarded was approximately $125 and was recorded as a component of operating expenses during 2002.

Employee Stock Purchase Plan

Under the Dollar Tree Stores, Inc. Employee Stock Purchase Plan (ESPP), the Company is authorized to issue up to 759,375 shares of common stock to eligible employees. Under the terms of the ESPP, employees can choose to have up to 10% of their annual base earnings withheld to purchase the Company's common stock. The purchase price of the stock is 85% of the lower of the price at the beginning or the end of the quarterly offering period. Under the ESPP, the Company has sold 645,097 shares as of January 29, 2005.

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 2004	Fiscal 2003	Fiscal 2002
Expected term	**3 months**	3 months	3 months
Expected volatility	**15.6%**	19.8%	28.2%
Annual dividend yield	**—**	—	—
Risk free interest rate	**2.1%**	1.1%	1.6%

The weighted average per share fair value of those purchase rights granted in 2004, 2003 and 2002 was $4.93, $4.60 and $5.02, respectively.

NOTE 10 – ACQUISITION

On June 29, 2003, the Company acquired 100% of the outstanding capital stock of Greenbacks, Inc. (Greenbacks). The results of Greenbacks' operations are included in the accompanying consolidated financial statements since

that date. Greenbacks was a privately held company operating 100 stores in 10 western states and one expandable 252,000 square foot distribution center in Salt Lake City. As a result of this acquisition, the Company extended its geographical reach to include 47 states compared with 41 states prior to the acquisition. In addition, this acquisition has provided the Company with an expandable distribution infrastructure in the Rocky Mountain area of the country. The aggregate purchase price was approximately $100,000 and was paid in cash. In addition, the Company incurred approximately $800 in direct costs associated with the acquisition. The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition.

Current assets	$ 27,601
Deferred tax asset-current	860
Property and equipment	7,856
Intangible assets	3,031
Goodwill	80,284
Other assets	27
Total assets acquired	119,659
Current liabilities	11,155
Deferred tax liability	1,636
Long-term debt	4,838
Other liabilities	257
Total liabilities assumed	17,886
Net assets acquired	$101,773

Included in the intangible assets acquired were non-compete agreements of $2,000 and favorable lease rights for operating leases for retail locations of $1,000. The non-compete agreements are with former key executives of Greenbacks. They are being amortized over five years, the weighted average term of the agreements. The favorable lease rights are being amortized on a straight-line basis to rent expense over the remaining initial lease terms, which expire at various dates through 2012.

NOTE 11 – INVESTMENT

On August 7, 2003, the Company paid $4,000 to acquire a 10.5% fully diluted interest in Ollie's Holdings, Inc. (Ollie's), a multi-price point discount retailer located in the mid-Atlantic region. In addition, the SKM Equity Fund III, L.P. (SKM Equity) and SKM Investment Fund (SKM Investment) acquired a combined fully diluted interest in Ollie's of 53.1%. Two of the Company's directors, Thomas Saunders and John Megrue, are principal members of Saunders Karp & Megrue Partners, L.L.C., which serves as the general partner of SKM Equity and SKM Investment. In conjunction with the acquisition of its interest in Ollie's, the Company also entered into a call option agreement. The option agreement provides the Company with the right to purchase all of SKM Equity's and SKM Investment's equity in Ollie's, for a fixed price as set forth in the agreement, subject to adjustments dependent on the occurrence of certain future events. The Company has no obligation to exercise the option or make any additional investment in Ollie's. The $4,000 investment in Ollie's is accounted for under the cost method of accounting and is included in "other assets" in the accompanying consolidated balance sheets.

NOTE 12 – CONSOLIDATION OF VARIABLE INTEREST ENTITY

In 2001, the Company entered into an operating lease arrangement, known as a synthetic lease, with a variable interest entity to finance the construction of four distribution centers. Because the Company accounted for this transaction as an operating lease, the related fixed assets and lease liabilities were not included in the consolidated balance sheets. In January 2003, the Financial Accounting Standards Board issued FIN 46. Under the terms of this standard, certain variable-interest entities, such as the entity in which the Company's lease facility is held, are required to be consolidated. The Company implemented this standard effective January 1, 2003 and, as a result, the distribution center assets and the debt incurred by the variable-interest entity to purchase and construct the assets are included in balance sheets for periods after January 1, 2003. The cumulative effect of a change in accounting principle represents, net of the tax effect, the historical depreciation related to the distribution center assets and, the historical amortization of the deferred financing costs recognized previously by the variable-interest entity and the write-off of a deferred rent liability related to the lease.

At January 31, 2004 amounts included in the balance sheet related to the variable-interest entity are as follows:

	January 31, 2004
Property and equipment, net	$114,426
Long-term debt, excluding current portion	142,568
Other assets, net	639

The Company repaid the variable-interest entity debt in March 2004 with borrowings from the Facility (see Note 5). As a result of the repayment of the variable-interest entity debt, the assets of the variable-interest entity were transferred to the Company.

The following table reconciles reported net income and net income per share to net income and net income per share that would have been recorded if FIN 46 were effective for the year ended December 31, 2002:

	Year Ended December 31, 2002
Reconciliation of net income:	
Net income	$154,647
Less: Depreciation, amortization and deferred rent effect (net of tax)	4,121
Adjusted net income	$150,526
Basic net income per share:	
Net income available to common shareholders	$ 1.36
Depreciation, amortization and deferred rent effect (net of tax)	(0.04)
Adjusted net income	$ 1.32
Diluted net income per share:	
Net income available to common shareholders	$ 1.35
Depreciation, amortization and deferred rent effect (net of tax)	(0.04)
Adjusted net income	$ 1.31

NOTE 13 – 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 2004 and 2003. 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	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2004:				
Net sales	**$ 710,330**	**$ 704,234**	**$ 723,967**	**$ 987,478**
Gross profit	**253,036**	**250,373**	**258,399**	**350,731**
Operating income	**58,659**	**49,084**	**53,589**	**132,219**
Net income	**35,150**	**29,592**	**31,854**	**83,654**
Diluted net income per share	**0.31**	**0.26**	**0.28**	**0.74**
Stores open at end of quarter	**2,579**	**2,612**	**2,674**	**2,735**
Comparable store net sales change	**(0.4%)**	**(0.2%)**	**0.7%**	**0.5%**
Fiscal 2003:				
Net sales	$ 615,568	$ 626,028	$ 665,211	$ 893,065
Gross profit	219,186	222,505	244,997	331,725
Operating income	54,491	47,600	60,365	131,141
Net income	32,795	28,799	36,161	79,828
Diluted net income per share	0.29	0.25	0.31	0.69
Stores open at end of quarter	2,319	2,468	2,511	2,513
Comparable store net sales change	2.2%	5.1%	1.7%	1.6%

(1) Easter was observed on April 11, 2004 and April 20, 2003.

BOARD OF DIRECTORS

Macon F. Brock, Jr., *Chairman*
H. Ray Compton
Richard G. Lesser
John F. Megrue
J. Douglas Perry, *Chairman Emeritus*
Bob Sasser
Thomas A. Saunders, III
Eileen R. Scott
Thomas E. Whiddon
Alan L. Wurtzel

OFFICERS

Bob Sasser,
President and Chief Executive Officer

Kent Kleeberger,
Chief Financial Officer

James E. Fothergill,
Chief People Officer

Raymond K. Hamilton,
Chief Information Officer

Gary M. Philbin,
Senior Vice President, Stores

Arvil L. Priode,
Senior Vice President,
Merchandise Planning and Control

Bob Rudman,
Chief Merchandising Officer

Stephen W. White,
Chief Logistics Officer

Frederick C. Coble,
Corporate Secretary

TRANSFER AGENT

National City Bank, Dept. 5352
Corporate Trust Operations
P.O. Box 92301
Cleveland, OH 44193-0900
Tel: 800-622-6757
Email: shareholder.inquiries@nationalcity.com

LEGAL COUNSEL

Williams Mullen Hofheimer Nusbaum, PC
999 Waterside Drive
Suite 1700
Norfolk, VA 23510

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP
999 Waterside Drive
Suite 2100
Norfolk, VA 23510

STOCK LISTING

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

The following table gives the high and low sales prices of our common stock for the fiscal years 2004 and 2003.

STOCK PRICE

	HIGH	LOW
2004		
First Quarter	**$ 33.97**	**$ 26.82**
Second Quarter	**29.20**	**24.50**
Third Quarter	**29.28**	**22.29**
Fourth Quarter	**30.29**	**26.40**
2003		
First Quarter	$ 26.16	$ 17.40
Second Quarter	37.62	24.82
Third Quarter	39.75	33.47
Fourth Quarter	38.74	27.36

We intend to retain any future earnings for use in our business. Management does not anticipate paying cash dividends in the foreseeable future. Our credit facilities contain financial covenants that restrict our ability to pay dividends.

ANNUAL MEETING

You are cordially invited to attend our Annual Meeting of Shareholders, which will be held at 10:00 a.m. on Thursday, June 16, 2005, at The Founders Inn, Virginia Beach, Virginia.

INVESTORS' INQUIRIES

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

Shareholder Services
Dollar Tree Stores, Inc.
500 Volvo Parkway
Chesapeake, VA 23320
(757) 321-5000

Or from our company web site:
www.DollarTree.com

Dollar Tree Stores, Inc.

500 Volvo Parkway
Chesapeake, Virginia 23320
Phone (757) 321-5000
www.DollarTree.com