D E L I V E R I N G   V A L U E

DOLLAR TREE®

2005 Annual Report

CONTENTS

ABOUT THE COMPANY

Delivering extreme value to customers has been the Dollar Tree promise since it opened its first store nearly twenty years ago.

Dollar Tree Stores, Inc. has grown from a 5-store chain in 1986 to nearly 3,000 stores by the close of fiscal 2005. A network of nine distribution centers enables the Company to efficiently deliver merchandise to its stores, all across the country. Part of our success is our belief in doing the right thing for the right reason, and, at Dollar Tree, that includes being open when our customers need us.

Our stores are clean and bright, staffed with helpful customer service specialists fulfilling our promise of a fast and friendly shopping experience — 363 days a year, in 48 states across the nation.

At Dollar Tree, we deliver what you want plus what you need, every day. Each Dollar Tree store offers a wide assortment of amazing values from brand name consumables to party supplies, toys, CDs and DVDs, as well as seasonal goods including gift wrap, ribbons, bags and bows!

Headquartered in Chesapeake, Virginia, and with more than 37,000 associates nationwide, we stand ready to continue to bring extreme value to our customers and shareholders alike.

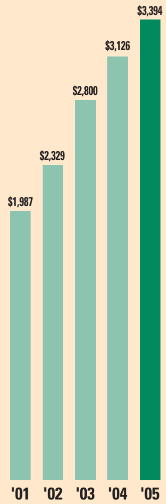
Financial Highlights

	2005	2004	2003[a]	2002	2001
(In thousands, except store and per share data)					
Net Sales	**$3,393,924**	$3,126,009	$2,799,872	$2,329,188	$1,987,271
Gross Profit	**1,172,363**	1,112,539	1,018,413	851,974	718,830
Operating Income	**283,239**	293,551	293,597	253,921	203,865
Net Income	**173,918**	180,250	177,583	154,647	123,081
Diluted Net Income Per Share	**1.60**	1.58	1.54	1.35	1.09
Working Capital	**$ 648,220**	$ 675,532	$ 450,279	$ 509,629	$ 360,757
Total Assets	**1,798,400**	1,792,672	1,501,519	1,116,377	902,048
Total Debt	**269,948**	281,746	185,151	54,429	62,371
Shareholders' Equity	**1,172,275**	1,164,212	1,014,522	855,404	651,736
Number of Stores Open	**2,914**	2,735	2,513	2,263	1,975
Total Selling Square Footage	**23,022**	20,444	16,878	13,042	10,129
Comparable Store Net Sales Increase/(Decrease)[b]	**(0.8%)**	0.5%	2.9%	1.0%	0.1%
Average Net Sales Per Store[b]	**$ 1,183**	$ 1,163	$ 1,134	$ 1,083	$ 1,043

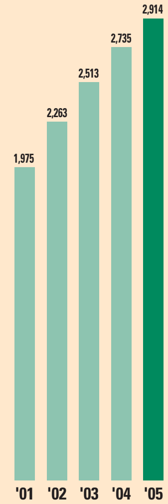
(a) In January 2003, the Company changed its fiscal year from December 31 to the Saturday closest to January 31, effective for the year beginning February 2, 2003.

(b) 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.

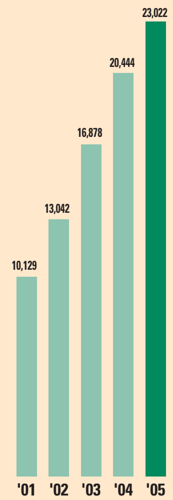
Net Sales
(In Millions)



Number of Stores Open



Total Selling Square Footage
(In Thousands)



To Our **Shareholders**

This year marks the 20 year anniversary of Dollar Tree Stores and the excitement of our business continues to build! Growing from a single store in 1986, Dollar Tree will end this year with over 3,000 stores across 48 states, a national retailer in every sense and the leader in extreme value retailing. Much has changed in the business environment over the past 20 years and while economic factors ebb and flow, the competitive landscape becomes crowded and customer tastes and preferences continue to change, at Dollar Tree, we believe there is one constant — everybody loves a bargain! Over the past 20 years, we have developed product skills, world-wide sourcing relationships, effective logistics capabilities, retail technology and operational efficiency that will enable Dollar Tree to continue providing great value for years to come. Our core competency is delivering value — value to our customers and to our shareholders.

For our customers, we deliver value through a combination of great products and conveniently-located stores. Stores that are bright, friendly and fun to shop. We strive to thrill our customers every day, exceeding their expectations with products that represent surprising value. This is what we call the "WOW factor", and this is what keeps them coming back.

For our shareholders, we deliver value in many ways. With a solid balance sheet, we have funded growth through internally generated capital, making prudent investments in infrastructure to support profitable business expansion. We remain focused on long-term profitability and return on investment. Strong financial controls reflect our core values of honesty, integrity and transparency — and these values are steadfast.

Our Products

Of course, our merchandise is the star of the Dollar Tree extreme value proposition. Every Dollar Tree store offers a wide assortment of variety merchandise — from housewares to hardware to party goods, health and beauty care, stationery, household cleaning supplies, candy and seasonal items and more — all at incredible values!

Our merchandising strategy provides a mix of branded product, including well-known national brands, popular regional brands and exclusive Dollar Tree brands. An ever-changing mix of exciting high value closeouts rounds out the assortment. We have become a destination for seasonal décor and party supplies. You can pay more but you can't buy better gift bags and wrap supplies. Our customers love our style and value! Additionally, in our larger store format, we have increased our assortment of basic products, things you need everyday, providing new and existing customers a reason to shop with us more frequently. We can now offer more of the products our customers need, like household cleaning supplies and health & beauty care, in addition to the great products they want, like toys and stationery. The expansion of our basics continues to provide our customers more reasons to shop for great values at Dollar Tree.

Our Progress on 2005 Initiatives

Successful retailing is always dependent on quality store locations and market share expansion. At the end of 1986, Dollar Tree operated five stores. In the first half of 2006, we will celebrate the opening of our 3,000th Dollar Tree store — a great record of growth in our first twenty years. In 2005, we opened 232 new stores with over 60 percent opening in the first half of the year. These stores averaged 12,400 square feet, a size that offers optimum productivity. This size store is ideal from the customers' perspective because it allows

Bob Sasser
President and
Chief Executive Officer

them to see a full display of merchandise in an open and bright shopping environment, while keeping their shopping trip quick and convenient. As we open new stores, we will continue to apply a more rigorous analytical process to identify optimal locations to maximize sales and Return on Invested Capital.

We also launched our Metropolitan store initiative in 2005. This initiative, including stores in Long Island and the greater New York and New Jersey areas, is yielding very positive results. Although these markets are more expensive to operate, and take longer to find the optimum real estate, they have the potential to lead the company in terms of sales productivity and four-wall contribution, as our experience has demonstrated so far.

In today's increasingly cashless society, offering consumers a broader range of payment options is essential. Accepting payment types other than cash often results in increased transaction size and store productivity. In 2005, we dramatically expanded our acceptance of debit card and electronic benefits transfer to over 70% of locations, and we plan to expand this to all of our stores in 2006. In addition, as we have added more basic product, we also now accept food stamps at over 200 of our locations.

Over the past few years, we have made significant investments in infrastructure, which are contributing to our improved performance. As an example, the increased visibility provided by our Point-of-Sale and back office systems and a greater use of auto replenishment on basics allows our stores to place more focus and energy into moving product to the sales floor faster. The result is a cleaner, more efficient store with less inventory in the backroom. Our inventory turns increased in 2005, and we ended the year with 12 percent less inventory

2005 Highlights

- **Record sales of $3.394 billion, an increase of 8.6% from 2004**
  - **Fourth quarter 2005 sales exceeded $1 billion – the Company's first ever billion dollar sales quarter**
  - **2,914 Dollar Tree stores open at year-end, in 48 States**
- **Re-engineered real estate process**
  - **Opened 60% of our 232 new stores in the 1st half**
  - **Average new store size: 12,400 square feet**
  - **Introduced Metropolitan Store initiative**
- **Expanded Tender types**
  - **Debit card acceptance rolled out to 1470 additional stores**
  - **Debit and EBT accepted at 70% of our stores by year-end**
  - **Credit cards accepted at approximately one third of our stores**
  - **Food Stamps accepted at more than 200 stores**
- **Freezers and coolers introduced to 181 additional stores**
- **Expanded Automated Store Replenishment (ASR) to over 700 SKU's**
- **Reduced inventory by 12% per store**
- **Completed acquisition of 138 Deal$ stores in March 2006**

To Our **Shareholders** *continued*

per store. This was made possible in part by putting in place an information systems infrastructure that allows us to better anticipate consumer demand and deliver product quickly and efficiently.

Our Priorities for 2006

Our number one priority for 2006 is to grow the top line. As in the past, we will do this through a combination of new stores and improved store productivity. Long term, we have the opportunity to grow to more than 5,000 stores in the U.S. alone.

In February of this year, we announced our intent to purchase stores and related assets of Deal$-Nothing Over a Dollar chain, from SUPERVALU INC. Under the terms of the acquisition, which was completed at the end of March, we acquired 138 Deal$ stores, including store assets, leasehold rights and certain intellectual property for $30.5 million in cash, plus approximately $22.2 million of inventory.

Deal$ stores offer a wide assortment of quality general merchandise, contemporary goods and everyday consumables. The stores average 11,000 gross square feet and operate in sixteen states in the Midwest and Southeast regions.

We are excited about this acquisition for several key reasons:

- It provides us the opportunity to expand our presence in the Midwest and Southeast regions;
- Deal$ is a strong, recognized brand, and we will continue to operate these stores under the Deal$ banner;
- The acquisition gives us a platform, separate from Dollar Tree stores, to begin testing new products and merchandising concepts, including higher price points in some of the newly acquired locations, without disrupting the single price point model in our Dollar Tree stores;
- Dollar Tree has existing logistics capacity to service all of these acquired stores efficiently, with no additional capital expenditure.

Every year builds on the successes of the previous year while looking ahead to the challenges of the future. This year is no different. In 2006 we intend to build on last year's progress made in re-engineering our real estate processes. We will continue to open stores earlier in the year, focusing on the optimal store size of about 12,000 square feet, while continuing to apply rigorous criteria for determining locations. We will also continue to leverage our investments in infrastructure and systems. In a nutshell, our goal for this year is to grow our top line through new stores and improved store productivity while setting the stage for consistent earnings growth and improved operating margins over the long term.

Our People — the Foundation of our Success

None of our goals can be achieved without the collaborative efforts of our 37,000 dedicated associates, who deliver value to our customers every day. They are the human element behind each sale. Every day, Dollar Tree associates throughout the organization give of themselves to make sure that each customer is pleased with their shopping experience and that they leave the store with the intent to return and shop at Dollar Tree again and again. They are the heart and soul of this organization and their efforts and creativity are the keys to our success and growth. We are grateful to our associates and recognize their huge contribution to the success of Dollar Tree. Our success is measured by the success of our people.

It has been a great 20 years for Dollar Tree Stores but the best is yet to come!

Bob Sasser
President and Chief Executive Officer

From the CFO

Kent Kleeberger
Chief Financial Officer

At Dollar Tree we are keenly aware of our responsibility on Delivering *Shareholder Value*. This means virtually all decisions made are designed to increase the long-term value of our company, while maintaining financial controls that represent the utmost integrity and transparency. These are basic tenants on which our business was built, and which will continue to guide our decisions in the future.

This year, we successfully completed our second years' compliance efforts under the requirements of Sarbanes-Oxley legislation. Once again, we earned a "clean bill of health" with no material weakness noted in our accounting and reporting processes. As a public Company, we share the desire by many to deliver improved profitability year after year. However, you can be assured that we will continue to operate our Company with a strong commitment to financial integrity and the related internal controls while driving to a cost efficient infrastructure that delivers bottom line results.

Speaking of results, we believe 2005 was a pivotal year in which Dollar Tree improved many key performance metrics, controlled expenses and focused on asset management with the goal of increasing liquidity and franchise value. Allow me to share with you examples to support this statement.

Key Performance Metrics

As a result of the progress in 2005 with many of our Company's initiatives, we achieved an increase of over 20% in the sales per square foot in our class of 2005 stores and Return on Invested Capital for new stores improved by more than 10%. Further, total inventory decreased 6%, despite a 13% increase in retail square footage, and inventory turns improved from 4.0 to 4.2 at the store level and from 2.9 to 3.1 for the whole company. We also did a good job of controlling our expenses.

I am especially proud of the efforts throughout Dollar Tree that, despite a challenging year, with no increase in comparable-store sales and inflationary pressures such as higher fuel prices, our Selling, General and Administrative expenses remained at 26.2% of sales — the same rate as the previous year. Some of the ways we achieved this rate were through implementing a re-designed medical benefits plan, controlling workers' compensation expenses, and pursuing other opportunities to reduce elements within our cost structure.

Liquidity and Capital

At Dollar Tree "cash is king" and we take great efforts to maintain our strong balance sheet. At year end, cash, cash equivalents and investments totaled $340 million versus $318 million a year ago. In addition, another $30 million was earmarked for pledged investments to support our insurance programs, which are reflected as long-term assets. Also, the Company expended $140 million for capital expenditures in 2005, principally for new and relocated stores.

Our increase in cash in 2005 is particularly impressive considering that we also expended $180 million for common share repurchase. We view share repurchases as accretive as well as a good use of free cash flow — a direct benefit to our shareholders. We will continue to repurchase shares under our $300 million authorization as market conditions warrant. As of fiscal year-end 2005, we have $173 million available for repurchase against this authorization.

We are planning 2006 capital expenditures of about $145-$155 million, which coincidentally is approximately equal to our projected depreciation and amortization. However, as we begin to explore new product opportunities arising from the Deal$ acquisition, there will be additional cash requirements to consider. The good news is, all of these activities will be funded from internally generated cash. Moreover, we believe the Dollar Tree business model will continue to generate a significant amount of additional free cash flow over and above all of these investments.

With rigorous attention to all aspects of the business, we expect 2006 to be another good year of progress toward our constant goal of delivering increased value to our shareholders.

I look forward to serving you, our shareholder.

Kent Kleeberger
Chief Financial Officer

Delivering

Extreme Value to the Customer

Dollar Tree proudly offers products that deliver extreme value, every day. At Dollar Tree we have what you need as well as what you want. Extreme value can be found in each aisle, from our vast assortment of health and beauty aids, to housewares, stemware, picture frames, to our wide array of party supplies, including helium balloons, gift wrap, and let's not forget our greeting cards, priced at two for a dollar every day!

We deliver more than expected for just $1.00, and it shows in our products, which get bigger and better each year, like our 14 inch Plush Christmas Teddy Bear. Our commitment to extreme value means we search for new products to introduce like our scented line of Solutions Household Cleaners, and our amazing collection of the Bible on CD. We re-design packaging so that our existing products, like our April Bath & Shower® line, remain trend relevant and still a great value.

From housewares to hardware, to party goods, all your health & beauty needs, food, toys, seasonal items, close-outs and more – Dollar Tree delivers extreme value every day!

Delivering

Convenience

for the Busy Shopper

With approximately 3,000 stores across the nation, Dollar Tree is conveniently located to serve our customers. Our stores are clean and well-lit, with ample parking close to the storefront. Our store size is ideal from the customer's perspective, as it allows customers to see a full display of merchandise in an open and bright shopping environment, while keeping the shopping trip quick and convenient. In 2005, we added freezers and refrigerated coolers to more than 180 stores and expanded our selection of consumables. During the last year we also increased our tender-type acceptance. By mid-year 2006, substantially all of our stores will accept Debit Cards and EBT. In addition, food stamps are accepted at more than 200 of our locations, and about one third of our stores accept credit cards. As a result, Dollar Tree offers its customer a convenient check-out experience with more payment choices than ever before!

What you need...What you want...Expanded payment types...3,000 locations open 363 days per year...Dollar Tree: We are where you are!


Disney
Subtraction
ALPHABET
Addition & Subtraction
Learning the Alphabet
MARKERS

Delivering

a **Fun** Shopping Adventure

At Dollar Tree, we bring you what you need, what you want, and then we go the extra mile and WOW you with the unexpected. Dollar Tree has always been committed to bringing its customer that unexpected treasure, including thrilling close-outs at amazing values. Our range of branded products continues to expand. Our buyers work with many consumer products vendors to develop items unique to Dollar Tree and offer our customers great value, national brand credibility and, of course, "The Thrill of the Hunt!"

Take a walk down the center of many of our larger stores and you will find our "WOW Zone", which consistently delivers amazing items, including great seasonal values like our incredible selection of inflatable water toys for the summer, including our 54 inch shark! The unexpected find is truly what sets Dollar Tree apart and another way we continue to deliver value to our customer.

Dollar Tree delivers **The Thrill of the Hunt!** – exceptional everyday value and unexpected treasures!

Delivering Value across the Nation

One of the reasons Dollar Tree is able to deliver value, day in and day out, is our national logistics network.

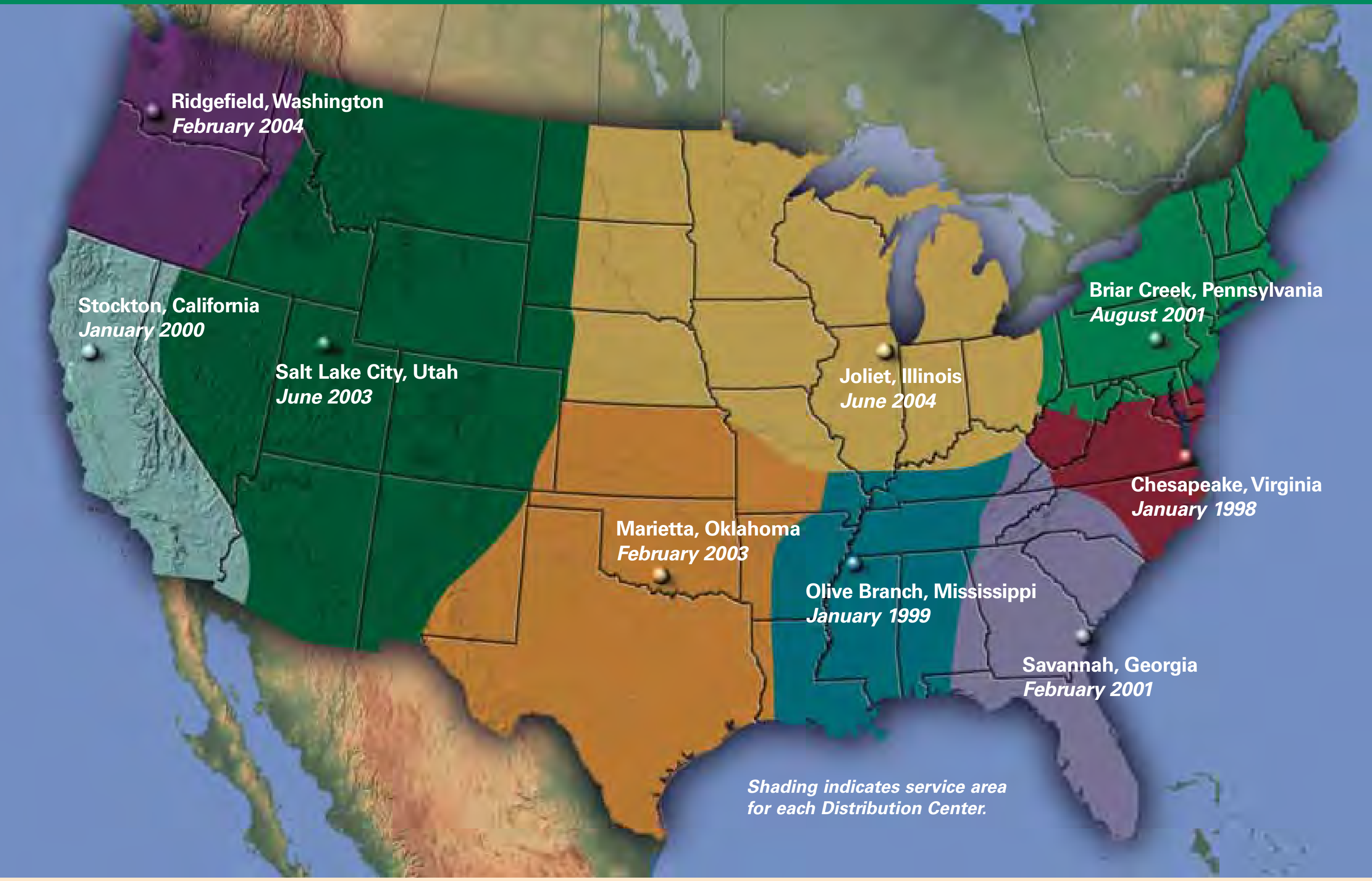
The Dollar Tree Stores Logistics network is supported by nine distribution centers. Our distribution centers are strategically positioned to provide economical and efficient logistics support to any point in the contiguous United States. As the map below illustrates, each distribution center serves a dedicated area of the country.

Not only do our nine distribution centers assure that we can deliver extreme value to our customers today, virtually all have the ability to expand to support future growth.

Headquarters

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

DISTRIBUTION CENTERS – *Date opened*



Management's Discussion & Analysis of Financial Condition and Results of Operations

A WARNING ABOUT FORWARD LOOKING STATEMENTS

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

- our anticipated sales, including comparable store net sales, net sales growth and earnings growth;
- our growth plans, including our plans to add, expand or relocate stores, our anticipated square footage increase, and our ability to renew leases at existing store locations;
- the average size of our stores to be added in 2006 and beyond;
- the effect of a slight shift in merchandise mix to consumables and the increase of freezers and coolers on gross profit margin and sales;
- the effect that expanding tender types accepted by our stores will have on sales;
- the net sales per square foot, net sales and operating income attributable to smaller and larger stores and store-level cash payback metrics;
- the possible effect of inflation and other economic changes on our costs and profitability, including the possible effect of future changes in 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 and other fixed costs;
- our seasonal sales patterns including those relating to the length of the holiday selling seasons;
- 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 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;
- our integration and future operations of the recently acquired Deal$ stores;
- 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 summarized below and the more detailed discussions in the "Risk Factors" and "Business" sections in our Annual Report on Form 10-K filed on April 12, 2006. Also see our "Management's Discussion and Analysis of Financial Condition and Results of Operations," which begins on the next page.

- Our profitability is especially vulnerable to cost increases.
- Our profitability is affected by the mix of products we sell.
- We may be unable to expand our square footage as profitably as planned.
- A downturn in economic conditions could adversely affect our sales.
- Our sales and profits rely on imported merchandise, which may increase in cost or become unavailable.
- We could encounter disruptions or additional costs in receiving and distributing merchandise.
- Sales below our expectations during peak seasons may cause our operating results to suffer materially.
- Pressure from competitors may reduce our sales and profits.

- The resolution of certain legal matters could have a material adverse effect on our results of operations, accrued liabilities and cash.
- Certain provisions in our articles of incorporation and bylaws could delay or discourage a takeover attempt that may be in a shareholder's best interest.

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

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, we do not, by policy, selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, shareholders should not assume that we agree with any statement or report issued by any securities analyst regardless of the content of the statement or report. We 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 "2006" or "fiscal 2006," "2005" or "fiscal 2005," and "2004" or "fiscal 2004" relate to as of or for the years ended February 3, 2007, January 28, 2006 and January 29, 2005, respectively.

Available Information

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

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

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

- what factors affect our business;
- what our earnings, gross margins and costs were in 2005 and 2004;
- why those earnings, gross margins and costs were different from the year before;
- how all of this affects our overall financial condition;
- what our expenditures for capital projects were in 2005 and what we expect them to be in 2006; 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 herein, which present the results of operations for the fiscal years ended January 28, 2006, January 29, 2005 and January 31, 2004. 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 2005 compared to the comparable fiscal year 2004 and the fiscal year 2004 compared to the comparable fiscal year 2003.

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 2006, we completed our acquisition of 138 Deal$ stores and related assets. We paid approximately $30.5 million for store related assets and $22.2 million for store and distribution center inventory. These amounts are subject to post-closing adjustments based on the results of physical inventory counts.
- On December 15, 2005, the Compensation Committee of our Board of Directors approved the acceleration of the vesting date of all previously issued, outstanding and unvested options under all current stock option plans, effective as of December 15, 2005. This decision eliminated

non-cash compensation expense that would have been recorded in future periods following our adoption of Statement of Financial Accounting Standards No. 123, *Share-Based Payment (revised 2004)* (FAS 123R), on January 29, 2006. Future compensation expense has been reduced by approximately $14.9 million over a period of four years during which the options would have vested, as a result of the option acceleration program.

- 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. As of January 28, 2006, we had $174.9 million remaining under this authorization.
- 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 2007.
- 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. This Facility also replaced our previous $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.

Overview

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

In fiscal 2005, we increased our selling square footage by approximately 13%. Of the 2.6 million selling square foot increase in 2005, approximately 0.5 million was added by expanding existing stores. The increase in selling square footage fell slightly below our planned square footage growth of 14%-16% as we closed more stores than planned in fiscal 2005 and our average new store size was slightly below target. The average size of our stores opened in 2005 was approximately 10,000 selling square feet (or about 12,400 gross square feet). In 2006, we expect to open stores slightly smaller than in 2005. These stores generate higher sales and operating income per store than our smaller stores and we believe that they create an improved shopping environment that invites customers to shop longer and buy more.

For fiscal 2005, we experienced a decrease in comparable store net sales of 0.8%. This had a negative effect on sales as we had planned to have comparable store net sales to be flat or slightly positive for 2005. Our comparable store net sales results were positively affected by the addition of 0.5 million selling square feet due to expanded and relocated stores during the year. The decrease in comparable store net sales was the result of a decline of 2.6% in the number of transactions, partially offset by an increase of 1.9% in transaction size. We believe comparable store net sales were primarily affected by the impact of higher fuel costs, which leave our customers with less disposable income, causing them to make fewer shopping trips and the shift in the timing of Easter from April 11 in 2004 to March 27 in 2005. 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 the number of transactions.

In 2005, we put initiatives in place that we believe are helping to offset some of the effect that higher fuel costs are having on our sales, including increased advertising of featured products and continued expansion of forms of payment accepted by our stores. Currently, over 2,300 of our stores accept debit cards, including over 1,400 stores which began accepting debit cards beginning with the roll-out in May 2005. We began to see positive effects from these initiatives in the second half of 2005 and believe that they will help increase comparable store net sales, despite continued high fuel costs.

We experienced a slight shift in the mix of merchandise sold to more consumables, which have lower margin, in 2005. We believe that higher fuel costs in 2005, which left our customers with less disposable income, contributed to the shift to more consumables as our customers bought more consumable and everyday items as opposed to our other merchandise categories. The shift in mix to more consumables is also the result of the roll-out of freezers and coolers to approximately 200 stores in 2005. As we continue to roll-out freezers and coolers to approximately 250 more stores in 2006, we expect to continue to see the pressure on margins in 2006. However, we believe that this will enable us to increase sales and earnings in the future by increasing the number of shopping trips made by our customers.

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 2006 to be approximately 9,200 selling square feet per store (or about 11,400 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. While our newer, larger stores have lower sales per square foot than older, smaller stores, they generate higher sales and operating income dollars per store and create an improved shopping environment that invites customers to shop longer and buy more.

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 in our Dollar Tree stores.

During the first half of fiscal 2004, we completed the rollout of our point-of-sale systems to most of our stores. 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 has enabled us to better control our inventory, which has resulted in more efficient distribution and store operations. Using the data from this system to better plan our inventory purchases has helped us reduce inventory per store by almost 12% as of January 28, 2006 and increase inventory turnover in the current year.

Our plans for fiscal 2006 anticipate comparable store net sales increases of about flat to slightly positive yielding net sales in the $3.845 to $3.940 billion range and diluted earnings per share of $1.68 to $1.80. We also expect a shift in the seasonality of our earnings in 2006. Easter is 20 days later in the current year, positively impacting the first quarter of 2006, and there is an extra shopping day between Thanksgiving and Christmas, which will impact the fourth quarter as compared to the prior year. Also, the retail calendar provides us with one extra week of sales in fiscal 2006. This guidance for 2006 is based on 12% – 14% selling square footage growth, which includes the acquisition of 138 Deal$ stores, or about 5% of the overall increase (see Deal$ discussion below).

On March 26, 2006, we completed our acquisition of 138 Deal$ stores for approximately $30.5 million of store related assets and $22.2 million of store and distribution center related inventory. These amounts are subject to post-closing adjustments based on the results of physical inventory counts. These stores are primarily in the Midwest part of the United States and we have existing logistics capacity to service these stores with no additional capital expenditure required. This acquisition also includes a few "combo" stores that offer an expanded assortment of merchandise including items that sell for more than $1. Substantially all Deal$ stores acquired will continue to operate under the Deal$ banner while providing us an opportunity to leverage our Dollar Tree infrastructure in the testing of new merchandise concepts, including higher price points without disrupting the single-price point model in our Dollar Tree stores.

In the fourth quarter of 2004, we recognized a one-time non-cash, after-tax adjustment of approximately $5.7 million, or $0.05 per diluted share, 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 2004. 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 the then current industry practices, we had reported straight-line expenses for leases beginning on the earlier of the store opening date or the commencement date of the lease in prior periods. 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 consolidated 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. These new lease accounting practices had an approximate $0.02 per diluted share negative effect on 2005 earnings.

Results of Operations

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

	Year Ended January 28, 2006	Year Ended January 29, 2005	Year Ended January 31, 2004
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**65.5%**	64.4%	63.6%
Gross profit	**34.5%**	35.6%	36.4%
Selling, general and administrative expenses	**26.2%**	26.2%	25.9%
Operating income	**8.3%**	9.4%	10.5%
Interest income	**0.2%**	0.1%	0.1%
Interest expense	**(0.4%)**	(0.3%)	(0.3%)
Income before income taxes	**8.1%**	9.2%	10.3%
Provision for income taxes	**(3.0%)**	(3.4%)	(4.0%)
Net income	**5.1%**	5.8%	6.3%

Fiscal year ended January 28, 2006 compared to fiscal year ended January 29, 2005

Net Sales. Net sales increased 8.6% in 2005 compared to 2004. We attribute this $267.9 million increase in net sales primarily to new stores in 2005 and 2004 (which are not included in our comparable store net sales calculation) partially offset by a slight decrease in comparable store net sales of 0.8% in 2005. Our 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 stores larger than 10,000 gross square feet continue to produce our best comparable store net sales results.

The following table summarizes the components of the changes in our store count for fiscal years ended January 28, 2006 and January 29, 2005.

	January 28, 2006	January 29, 2005
New stores	**197**	209
Acquired leases	**35**	42
Expanded or relocated stores	**93**	129
Closed stores	**(53)**	(29)

Of the 2.6 million selling square foot increase in 2005, approximately 0.5 million in selling square feet was added by expanding existing stores.

Gross Profit. Gross profit margin decreased to 34.5% in 2005 compared to 35.6% in 2004. The decrease is primarily due to the following:

- Merchandise cost, including inbound freight, increased approximately 55 basis points, due to a slight shift in mix to more consumables, which have a lower margin and increased inbound freight costs due to higher fuel costs.
- Occupancy costs increased approximately 45 basis points due primarily to deleveraging associated with the negative comparable store net sales for the year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, as a percentage of net sales, were 26.2% for 2005 and 2004. However, several components had increases or decreases as noted below:

- Operating and corporate expenses decreased approximately 25 basis points primarily due to decreased store supplies expense as a result of better pricing, decreased professional fees and the receipt of insurance proceeds resulting from a fire at one of our locations, partially offset by increased interchange fees resulting from the rollout of our debit card program in 2005.
- Payroll related costs decreased approximately 10 basis points due to a reduction in incentive compensation accruals that are based on 2005 earnings and lower workers' compensation and health care claims in the current year.
- These decreases were partially offset by an approximate 25 basis point increase in store operating costs primarily due to higher utility costs due to higher rates and consumption in the current year.
- Depreciation expense for stores also increased 10 basis points primarily due to the deleveraging associated with negative comparable store net sales for the current year.

Operating Income. Due to the reasons discussed above, operating income margin decreased to 8.3% in 2005 compared to 9.4% for 2004.

Interest Income. Interest income increased $2.2 million in 2005 compared to 2004 because of higher investment balances in the current year and increased interest rates.

Interest Expense. Interest expense increased $4.8 million in 2005 as compared to 2004. This increase is primarily due to increased rates on our revolver in the current year.

Income Taxes. Our effective tax rate was 36.8% in 2005 compared to 37.5% in 2004. The decreased tax rate for 2005 was due primarily to the resolution of tax uncertainties in the current year and increased tax-exempt interest on certain of our investments.

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. Our 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.

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

	January 29, 2005	January 31, 2004
New stores	209	183
Acquired stores	—	100
Acquired leases	42	—
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. Also, markdowns taken on lower than planned seasonal sell through of Christmas merchandise and a longer post Christmas holiday sale than in 2003 resulted 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 2004.

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 2004.
- Insurance and benefits expense increased approximately 10 basis points due to increased health care and workers' compensation expenses in 2004.
- Partially offsetting these rate increases was an approximate 15 basis point decrease in store payroll costs in 2004 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 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.

Liquidity and Capital Resources

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

The following table compares cash-related information for the years ended January 28, 2006, January 29, 2005, and January 31, 2004:

(in millions)	**Year Ended January 28, 2006**	Year Ended January 29, 2005	Year Ended January 31, 2004
Net cash provided by (used in):			
Operating activities	**$ 365.1**	$ 276.5	$ 243.7
Investing activities	**(235.5)**	(315.4)	(282.4)
Financing activities	**(170.3)**	61.3	(35.5)

The $88.6 million increase in cash provided by operating activities in 2005 was primarily due to an approximate 12% decrease in inventory per store at January 28, 2006 compared to January 29, 2005. The inventory per store decrease is the result of an initiative to lower backroom inventory levels and increase inventory turns through a reduction in current year purchases. The aforementioned net cash provided was partially offset by a decrease in deferred tax liabilities chiefly as a result of the elimination of bonus depreciation.

The $79.9 million decrease in cash used in investing activities in 2005 compared to 2004 was the result of a $34.2 million decrease in net purchases of investments resulting from more cash used to repurchase stock in the current year. The net purchases of investments in the current year include $29.9 million of investments that are in a restricted account to collateralize certain long-term insurance obligations. These investments replaced higher cost stand-by letters of credit and surety bonds. Capital expenditures also decreased $42.5 million in the current year after two distribution center projects and point-of-sale installations were completed in 2004.

The $231.6 million change in cash used in financing activities in 2005 compared to 2004 primarily resulted from $180.4 million in stock repurchases in the current year compared to $48.6 million in the prior year. Also in the prior year, we entered into a five-year $450.0 million Revolving Credit Facility, under which we received proceeds of $250.0 million. We used a portion of these proceeds to repay $142.6 million of variable rate debt for our distribution centers and invested the balance in short-term tax exempt municipal bonds. As of January 28, 2006, we had $250.0 million outstanding and $200.0 million available under this facility. This facility bears interest at LIBOR, plus 0.475% spread.

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 2004 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 2004;
- 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 2003 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 2004 under a $200.0 million authorization granted by our Board of Directors in November 2002 and a $7.1 million decrease in cash proceeds from stock issued under stock-based compensation plans.

At January 28, 2006, our long-term borrowings were $269.0 million and our capital lease commitments were $0.9 million. We also have a $125.0 million and a $50.0 million Letter of Credit Reimbursement and Security Agreement, under which approximately $81.6 million were committed to letters of credit issued for routine purchases of imported merchandise at January 28, 2006.

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 authorization terminated the previous November 2002, $200.0 million authorization. For 2005 and 2004, we repurchased 7,024,450 shares and 1,809,953 shares, respectively, for approximately $180.4 million and $48.6 million, respectively. As of January 28, 2006, we have approximately $174.9 million remaining under the March 2005 authorization. From January 29, 2006 through March 31, 2006, we have repurchased additional shares totaling $22.6 million under this authorization.

Funding Requirements

Overview

In 2005, the average investment per new store, including capital expenditures, initial inventory and pre-opening costs, was approximately $508,000. We expect our cash needs for opening new stores and expanding existing stores in fiscal 2006 to total approximately $136.0 million, which includes capital expenditures, initial inventory and pre-opening costs. Our estimated capital expenditures for fiscal 2006 are between $145.0 and $155.0 million, including planned expenditures for our new and expanded Dollar Tree stores, improvements to the acquired Deal$ 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	2006	2007	2008	2009	2010	Thereafter
Lease Financing							
Operating lease obligations	$1,015.1	$243.2	$212.9	$174.5	$138.5	$96.2	$149.8
Capital lease obligations	1.1	0.4	0.3	0.2	0.1	0.1	—
Long-term Borrowings							
Revolving credit facility	250.0	—	—	—	250.0	—	—
Revenue bond financing	19.0	19.0	—	—	—	—	—
Total obligations	$1,285.2	$262.6	$213.2	$174.7	$388.6	$96.3	$149.8

Commitments	Total	Expiring in 2006	Expiring in 2007	Expiring in 2008	Expiring in 2009	Expiring in 2010	Thereafter
Letters of credit and surety bonds	$ 124.7	$122.7	$ 2.0	$ —	$ —	$ —	$ —
Freight contracts	47.2	31.8	13.5	1.9	—	—	—
Technology assets	6.5	6.5	—	—	—	—	—
Total commitments	$ 178.4	$161.0	$ 15.5	$ 1.9	$ —	$ —	$ —

Lease Financing

Operating Lease Obligations. Our operating lease obligations are primarily for payments under noncancelable store leases. The commitment includes amounts for leases that were signed prior to January 28, 2006 for stores that were not yet open on January 28, 2006.

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

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 28, 2006, 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 used the proceeds from the bonds to finance the acquisition, construction and installation of land, buildings, machinery and equipment for our distribution facility in Olive Branch, Mississippi. At January 28, 2006, the balance outstanding on the bonds was $19.0 million. These bonds are due to be repaid in June 2018. The bonds do not have a prepayment penalty as long as the interest rate remains variable. The bonds contain a demand provision and, therefore, outstanding amounts are classified as current liabilities. We pay interest monthly based on a variable interest rate, which was 4.6% at January 28, 2006.

Commitments

Letters of Credit and Surety Bonds. In March 2001, we entered into a Letter of Credit Reimbursement and Security Agreement, which provides $125.0 million for letters of credit. In December 2004, we entered into an additional Letter of Credit Reimbursement and Security Agreement, which provides $50.0 million for letters of credit. Both of these letters of credit are generally issued for the routine purchase of imported merchandise. Approximately $81.6 million was committed to letters of credit at January 28, 2006. We also have letters of credit or surety bonds outstanding for 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 April 2008. The total amount of these commitments is approximately $47.2 million.

Technology Assets. We have commitments totaling approximately $6.5 million to primarily purchase store technology assets for our stores during 2006.

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 and expires in 2009.

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

We estimate our markdown reserve based on the consideration of a variety of factors, including, but not limited to, quantities of slow moving or 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 estimated reserve for markdowns compared with actual results.

Our accrual for shrink is based on the actual, historical shrink results of our most recent physical inventories adjusted, if necessary, for current economic conditions. These estimates are compared to actual results as physical inventory counts are taken and reconciled to the general ledger. Our physical inventory counts are generally taken between January and August of each year; therefore, the shrink accrual recorded at January 28, 2006 is based on estimated shrink for most of 2005, including the fourth quarter. We have not experienced significant fluctuations in historical shrink rates in our Dollar Tree stores for the last two years. However, we have sometimes experienced higher than typical shrink in acquired stores in the year following an acquisition. We periodically adjust our shrink estimates to address these factors as they become apparent.

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

Accrued Expenses

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

Income Taxes

On a quarterly basis, we estimate our required income tax liability and assess the recoverability of our deferred tax assets. Our income taxes payable are estimated based on enacted tax rates, including estimated tax rates in states where our store base is growing applied to the income expected to be taxed currently. The current tax liability includes a liability for resolution of tax uncertainties. Management assesses the recoverability of deferred tax assets based on the availability of carrybacks of future deductible amounts and management's projections for future taxable income. We cannot guarantee that we will generate taxable income in future years. Historically, we have not experienced significant differences in our estimates of our tax accrual. However, in 2005 and 2004, we recognized approximately $1.5 million and $2.1 million, respectively, of tax benefits related to the resolution of tax uncertainties.

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 11, 2004, March 27, 2005 and will be observed on April 16, 2006. Due to the 20-day longer Easter selling season in 2006, we expect a larger portion of our annual earnings to be realized in the first quarter of 2006 as compared to 2005. 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.

Inflation and Other Economic Factors

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

Shipping Costs. 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 ocean carriers. 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 18,838 forty-foot equivalent containers in 2005 and expect this number to increase in fiscal 2006 proportionately to sales growth. As a result, our trans-Pacific shipping costs in fiscal 2006 may increase compared with fiscal 2005 when we renegotiate our import shipping rates effective May 2006. 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 2005 and the threat of continued increases in 2006, 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 $2.0 to $3.0 million in 2006. We expect to offset a portion of this potential increase with improved operational efficiencies.

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.

New Accounting Pronouncements

Effective January 29, 2006 (the first day of fiscal 2006), the Company adopted FAS 123R. This statement is a revision of FAS 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion No. 25. FAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The Company adopted FAS 123R using the modified prospective method, which requires expensing of all share-based payments granted on or after January 29, 2006 and for all awards granted to employees that were unvested as of January 29, 2006.

On December 15, 2005, the Compensation Committee of the Board of Directors of the Company approved the acceleration of the vesting date of all previously issued, outstanding and unvested options under all current stock option plans, including the 1995 Stock Incentive Plan, the 2003 Equity Incentive Plan and the 2004 Executive Officer Equity Plan, effective as of December 15, 2005. At the effective date, almost all of these options had exercise prices higher than the actual stock price. The Company made the decision to accelerate vesting of these options to give employees increased performance incentives and to enhance current retention. This decision also eliminated non-cash compensation expense that would have been recorded in future periods following the Company's adoption of FAS 123R on January 29, 2006. Future compensation expense has been reduced by $14.9 million, over a period of four years during which the options would have vested, as a result of the option acceleration program. This amount is net of compensation expense of $150,000 recognized in fiscal 2005 for estimated forfeiture of certain (in the money) options.

In March 2006, the Compensation Committee of our Board of Directors granted approximately 317,500 options. The grant date for these options is March 31, 2006. The fair value of these options of approximately $3.5 million will be recognized over the three-year vesting period.

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 28, 2006:

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	($0.1 million)
$25.0 million interest rate swap	LIBOR	5.43%	N/A	3/12/06	($0.04 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 28, 2006 and January 29, 2005, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended January 28, 2006. 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 28, 2006 and January 29, 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended January 28, 2006, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Norfolk, Virginia
April 5, 2006

Consolidated Statements of Operations

(In thousands, except per share data)	**Year Ended January 28, 2006**	Year Ended January 29, 2005	Year Ended January 31, 2004
Net sales	**$3,393,924**	$3,126,009	$2,799,872
Cost of sales (Note 4)	**2,221,561**	2,013,470	1,781,459
Gross profit	**1,172,363**	1,112,539	1,018,413
Selling, general and administrative expenses (Notes 8 and 9)	**889,124**	818,988	724,816
Operating income	**283,239**	293,551	293,597
Interest income	**6,020**	3,860	2,648
Interest expense (Note 6)	**(14,041)**	(9,241)	(7,493)
Income before income taxes	**275,218**	288,170	288,752
Provision for income taxes (Note 3)	**101,300**	107,920	111,169
Net income	**$ 173,918**	$ 180,250	$ 177,583
Basic net income per share (Note 7):			
Net income	**$ 1.61**	$ 1.59	$ 1.55
Diluted net income per share (Note 7):			
Net income	**$ 1.60**	$ 1.58	$ 1.54

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(In thousands, except share data)	**January 28, 2006**	January 29, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 65,834**	$ 106,532
Short-term investments	**273,950**	211,275
Merchandise inventories	**576,545**	615,483
Deferred tax assets (Note 3)	**10,829**	8,072
Prepaid expenses and other current assets (Note 2)	**16,518**	28,525
Total current assets	**943,676**	969,887
Property, plant and equipment, net (Note 2)	**681,801**	685,386
Intangibles, net (Notes 2 and 10)	**129,348**	129,032
Other assets, net (Notes 2, 5, 8 and 11)	**43,575**	8,367
TOTAL ASSETS	**$1,798,400**	$1,792,672
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5)	**$ 19,000**	$ 19,000
Current installments of obligations under capital leases (Note 2)	**337**	12,212
Accounts payable	**135,555**	124,195
Other current liabilities (Notes 2 and 8)	**98,866**	105,279
Income taxes payable	**41,698**	33,669
Total current liabilities	**295,456**	294,355
Long-term debt, excluding current portion (Note 5)	**250,000**	250,000
Obligations under capital leases, excluding current installments (Note 2)	**611**	534
Deferred tax liabilities (Note 3)	**23,553**	42,075
Other liabilities (Notes 6 and 8)	**56,505**	41,496
Total liabilities	**626,125**	628,460
Shareholders' equity (Notes 6, 7 and 9):		
Common stock, par value $0.01. 300,000,000 shares authorized, 106,552,054 and 113,020,941 shares issued and outstanding at January 28, 2006 and January 29, 2005, respectively	**1,065**	1,130
Additional paid-in capital	**11,438**	177,684
Accumulated other comprehensive income (loss)	**61**	(294)
Unearned compensation	**—**	(101)
Retained earnings	**1,159,711**	985,793
Total shareholders' equity	**1,172,275**	1,164,212
Commitments, contingencies and subsequent event (Notes 4 and 12)	**—**	—
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$1,798,400**	$1,792,672

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Years Ended January 28, 2006, January 29, 2005 and January 31, 2004

(in thousands)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income/ (Loss)	Unearned Compensation	Retained Earnings	Shareholders' Equity
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 (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 (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
Net income for the year ended January 28, 2006	—	—	—	—	—	173,918	173,918
Other comprehensive income (Note 7)	—	—	—	355	—	—	355
Total comprehensive income							174,273
Issuance of stock under Employee Stock Purchase Plan (Note 9)	148	1	3,013	—	—	—	3,014
Exercise of stock options, including income tax benefit of $1,176 (Note 9)	407	4	8,825	—	—	—	8,829
Repurchase and retirement of shares (Note 7)	(7,024)	(70)	(180,328)	—	—	—	(180,398)
Restricted stock issuance and amortization (Note 9)	—	—	2,244	—	101	—	2,345
Balance at January 28, 2006	**106,552**	**$ 1,065**	**$ 11,438**	**$ 61**	**$ —**	**$1,159,711**	**$ 1,172,275**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(In thousands)	**Year Ended January 28, 2006**	Year Ended January 29, 2005	Year Ended January 31, 2004
Cash flows from operating activities:			
Net income	**$ 173,918**	$ 180,250	$ 177,583
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**140,717**	129,291	107,088
Loss on disposal of property and equipment	**3,320**	2,797	4,015
Change in fair value of non-hedging interest rate swaps	**(764)**	(1,057)	(889)
Provision for deferred income taxes	**(21,501)**	15,578	19,681
Tax benefit of stock option exercises	**1,176**	2,144	5,620
Other non-cash adjustments to net income	**5,532**	2,113	1,965
Changes in assets and liabilities increasing (decreasing) cash and cash equivalents:			
Merchandise inventories	**38,938**	(89,840)	(61,166)
Other assets	**(5,557)**	534	(1,852)
Accounts payable	**11,360**	9,223	(29,135)
Income taxes payable	**8,029**	(3,366)	16,910
Other current liabilities	**(6,413)**	15,320	4,655
Other liabilities	**16,391**	13,502	(745)
Net cash provided by operating activities	**365,146**	276,489	243,730
Cash flows from investing activities:			
Capital expenditures	**(139,247)**	(181,782)	(236,761)
Purchase of Greenbacks, Inc., net of cash acquired of $1,250	**—**	—	(100,523)
Purchase of short-term investments	**(885,480)**	(465,815)	(150,640)
Proceeds from sales of short-term investments	**822,805**	339,035	208,570
Acquisition of favorable lease rights	**(3,646)**	(6,845)	(105)
Purchase of restricted investments	**(29,944)**	—	—
Other	**—**	—	(2,944)
Net cash used in investing activities	**(235,512)**	(315,407)	(282,403)
Cash flows from financing activities:			
Proceeds from long-term debt, net of facility fees of $1,094 in 2004	**—**	248,906	39,700
Repayment of long-term debt	**—**	(148,568)	(51,367)
Principal payments under capital lease obligations	**(601)**	(5,572)	(7,994)
Payments for share repurchases	**(180,398)**	(48,611)	(38,053)
Proceeds from stock issued pursuant to stock-based compensation plans	**10,667**	15,105	22,175
Net cash provided by (used in) financing activities	**(170,332)**	61,260	(35,539)
Net increase (decrease) in cash and cash equivalents	**(40,698)**	22,342	(74,212)
Cash and cash equivalents at beginning of period	**106,532**	84,190	158,402
Cash and cash equivalents at end of period	**$ 65,834**	$ 106,532	$ 84,190
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest, net of amount capitalized	**$ 11,820**	$ 8,117	$ 7,252
Income taxes	**$ 113,863**	$ 93,395	$ 70,172

Supplemental disclosure of non-cash investing and financing activities:

The Company purchased equipment under capital lease obligations amounting to $408, $484 and $2,134 in the years ended January 28, 2006, January 29, 2005 and January 31, 2004.

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 2, in 2005, the Company settled the lease obligation on the sale-leaseback transaction with a payment of $130. The receivable of $11,605 and the lease obligation of $11,735 were satisfied as a result of this payment.

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 28, 2006, Dollar Tree Stores, Inc. (DTS or the Company) owned and operated 2,914 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 and Dollar Express. Our stores average approximately 7,900 selling square feet.

The Company's headquarters and one of its distribution centers are located in Chesapeake, Virginia. The Company also operates distribution centers in Mississippi, Illinois, California, Pennsylvania, Georgia, Oklahoma, Utah and Washington. The Company's stores are located in all 48 contiguous states. The Company's merchandise includes food, health and beauty care, party goods, candy, seasonal 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 ends on the Saturday closest to January 31. Any reference herein to "2005" or "Fiscal 2005", "2004" or "Fiscal 2004" and "2003" or "Fiscal 2003" relates to as of or for the years ended January 28, 2006, January 29, 2005 and January 31, 2004, respectively.

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.

Reclassifications

Certain 2004 and 2003 amounts have been reclassified for comparability with the current period presentation.

Cash and Cash Equivalents

Cash and cash equivalents at January 28, 2006 and January 29, 2005 includes $31,395 and $75,885, 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 depending on terms of the underlying agreement. 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.

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 $25,265 and $27,968 at January 28, 2006 and January 29, 2005, 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	40 years
Furniture, fixtures and equipment	3 to 15 years
Transportation vehicles	4 to 6 years

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

In the fourth quarter of 2004, the Company revised its estimate of useful lives on certain store equipment and distribution center assets. This change increased 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 2005, 2004 and 2003, the Company recorded charges of $218, $531 and $234, respectively, to write down certain assets. These charges are recorded as a component of "selling, general and administrative expenses" in the accompanying consolidated statements of operations.

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 swaps are recognized as adjustments to expense in the period earned or incurred. The Company formally documents all hedging relationships, if applicable, and assesses hedge effectiveness both at inception and on an ongoing basis.

Certain of the Company's interest rate swaps have not qualified for hedge accounting treatment pursuant to the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result, these interest rate swaps are recorded at fair value in the accompanying consolidated balance sheets as a component of "other liabilities" (see Note 6). Changes in the fair values of these interest rate swaps are recorded as "interest expense" and "change in the fair value of non-hedging interest rate swaps" in the accompanying consolidated statements of operations and the consolidated statements of cash flows, respectively.

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 income (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 income (loss) will be recorded as a yield adjustment over the term of the forecasted transaction.

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, or $0.01 per diluted share, related to the fiscal 2004. 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 accompanying consolidated 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.

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 $11,807, $11,042 and $5,681 for the years ended January 28, 2006, January 29, 2005 and January 31, 2004, respectively.

Income Taxes

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

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 (FAS 123)*, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by FAS 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 FAS 123, through fiscal 2005.

If the accounting provisions of FAS 123 had been adopted, the Company's net income and net income per share would have been as indicated in the following table:

	Year Ended January 28, 2006	Year Ended January 29, 2005	Year Ended January 31, 2004
Net income as reported	**$173,918**	$180,250	$177,583
Add: Total stock-based employee compensation expense included in net income, net of related tax effects	**95**	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	**18,170**	13,007	13,181
	$155,843	$167,243	$164,402
Net income per share:			
Basic, as reported	**$ 1.61**	$ 1.59	$ 1.55
Basic, pro forma under FAS 123	**1.44**	1.48	1.43
Diluted, as reported	**$ 1.60**	$ 1.58	$ 1.54
Diluted, pro forma under FAS 123	**1.44**	1.47	1.43

On December 15, 2005, the Compensation Committee of the Board of Directors of the Company approved the acceleration of the vesting date of all previously issued, outstanding and unvested options under all current stock option plans, including the 1995 Stock Incentive Plan, the 2003 Equity Incentive Plan and the 2004 Executive Officer Equity Plan, effective as of December 15, 2005. At the effective date, almost all of these options had exercise prices higher than the actual stock price. The Company made the decision to accelerate vesting of these options to give employees increased performance incentives and to enhance current retention. This decision also eliminated non-cash compensation expense that would have been recorded in future periods following the Company's adoption of FAS 123R on January 29, 2006. Future compensation expense has been reduced by $14,881, over a period of four years during which the options would have vested, as a result of the option acceleration program. This amount is net of compensation expense of $150 recognized in fiscal 2005 for estimated forfeiture of certain (in the money) options.

Effective January 29, 2006 (the first day of fiscal 2006), the Company adopted SFAS No. 123, *Share-Based Payment (revised 2004)*, (FAS 123R). This statement is a revision of FAS 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25. FAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The Company will adopt FAS 123R using the modified prospective method, which will require all share-based payments granted on or after January 29, 2006 and all awards granted to employees that were unvested as of January 29, 2006, to be accounted for using the fair value method.

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

On March 31, 2006, the Board of Directors granted approximately 286,500 restricted stock units and options to purchase 317,500 shares of the Company's common stock under the Company's Equity Incentive Plan and the Executive Officer Equity Incentive Plan.

Net Income Per Share

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

NOTE 2 – BALANCE SHEET COMPONENTS

Intangibles, Net

Intangibles, net, as of January 28, 2006 and January 29, 2005 consist of the following:

	January 28, 2006	January 29, 2005
Non-competition agreements	**$ 6,398**	$ 6,398
Accumulated amortization	**(4,272)**	(3,475)
Non-competition agreements, net	**2,126**	2,923
Favorable lease rights	**12,680**	9,034
Accumulated amortization	**(4,100)**	(1,567)
Favorable lease rights, net	**8,580**	7,467
Goodwill	**130,271**	130,271
Accumulated amortization	**(11,629)**	(11,629)
Goodwill, net	**118,642**	118,642
Total intangibles, net	**$129,348**	$129,032

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. Certain of these agreements were amortized over five years and as of January 28, 2006, 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 2005 and 2004, 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. The weighted average life remaining on the favorable lease rights at January 28, 2006 is 59 months.

Amortization expense related to the non-competition agreements and favorable lease rights was $3,330, $1,551 and $1,300 for the years ended January 28, 2006, January 29, 2005 and January 31, 2004, respectively. Estimated annual amortization expense for the next five years follows: 2006 – $3,341; 2007 – $3,115; 2008 – $1,727; 2009 – $892; and 2010 – $674.

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 2005 and determined that no impairment loss existed.

Property, Plant and Equipment, Net

Property, plant and equipment, net, as of January 28, 2006 and January 29, 2005 consists of the following:

	January 28, 2006	January 29, 2005
Land	**$ 29,387**	$ 28,867
Buildings	**154,661**	171,980
Improvements	**418,070**	348,561
Furniture, fixtures and equipment	**607,060**	549,051
Transportation vehicles	**1,349**	1,868
Construction in progress	**29,359**	20,352
Total property, plant and equipment	**1,239,886**	1,120,679
Less: accumulated depreciation and amortization	**558,085**	435,293
Total property, plant and equipment, net	**$ 681,801**	$ 685,386

Other Assets, Net

Other assets, net includes $29,944 of restricted investments. In 2005, the Company purchased these restricted investments to collateralize long-term insurance obligations. These investments replaced higher cost stand by letters of credit and surety bonds.

Other Current Liabilities

Other current liabilities as of January 28, 2006 and January 29, 2005 consist of accrued expenses for the following:

	January 28, 2006	January 29, 2005
Compensation and benefits	**$22,210**	$ 23,384
Taxes (other than income taxes)	**15,783**	11,992
Insurance	**28,194**	29,112
Other	**32,679**	40,791
Total other current liabilities	**$98,866**	$105,279

Capital Leases

The present value of future minimum capital lease payments as of January 28, 2006 is as follows:

2006	$ 414
2007	317
2008	223
2009	114
2010	33
Total minimum lease payments	1,101
Less: amount representing interest (at an average rate of approximately 9.7%)	153
Present value of net minimum capital lease payments	948
Less current installments of obligations under capital leases	337
Obligations under capital leases, excluding current installments	$ 611

Included in property, plant and equipment at January 28, 2006 and January 29, 2005 are leased furniture and fixtures and transportation vehicles with a cost of $2,088 and $4,465, respectively. Accumulated depreciation on these assets totaled $1,053 and $2,964 at January 28, 2006 and January 29, 2005, 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 was 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. As part of the original transaction, the Company received proceeds of $20,880, net of financing costs, and an $8,120 11% note receivable. During 2005, the Company paid $130, which satisfied the note receivable of $11,605 and the remaining lease obligation of $11,735.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, 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 long-term financial assets and liabilities, excluding interest rate swaps and restricted investments, approximate fair value because they are recorded using discounted future cash flows or quoted market rates. Short-term investments and restricted investments are carried at fair value in accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*.

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

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 28, 2006 and January 29, 2005, are as follows:

	January 28, 2006	January 29, 2005
$25,000 interest rate swap	**$ 37**	$ 655
$19,000 interest rate swap	**129**	893
	$166	$1,548

The fair values of the interest rate swaps are included in "other liabilities" in the accompanying consolidated balance sheets.

NOTE 3 – INCOME TAXES

Total income taxes were allocated as follows:

	Year Ended January 28, 2006	Year Ended January 29, 2005	Year Ended January 31, 2004
Income from continuing operations	**$101,300**	$107,920	$111,169
Accumulated other comprehensive income, marking derivative financial instruments to fair value	**222**	424	192
Stockholders' equity, tax benefit on exercise of stock options	**(1,176)**	(2,144)	(5,620)
	$100,346	$106,200	$105,741

The provision for income taxes consists of the following:

	Year Ended January 28, 2006	Year Ended January 29, 2005	Year Ended January 31, 2004
Federal – current	**$108,086**	$ 75,785	$ 76,017
Federal – deferred	**(20,632)**	15,861	19,465
State – current	**14,715**	16,557	15,471
State – deferred	**(869)**	(283)	216
	$101,300	$107,920	$111,169

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

	Year Ended January 28, 2006	Year Ended January 29, 2005	Year Ended January 31, 2004
Statutory tax rate	**35.0%**	35.0%	35.0%
Effect of:			
State and local income taxes, net of federal income tax benefit	**3.4**	3.6	3.5
Other, net	**(1.6)**	(1.1)	—
Effective tax rate	**36.8%**	37.5%	38.5%

The rate reduction in "Other, net" in the above table consists primarily of benefits from the resolution of tax uncertainties and tax exempt interest in 2005 and 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 28, 2006	Year Ended January 29, 2005
Deferred tax assets:		
Accrued expenses and other liabilities principally due to differences in the timing of deductions for reserves	**$ 30,648**	$ 14,744
Deferred compensation primarily due to timing of contributions to the profit sharing plan	**922**	—
Other	**—**	169
Total deferred tax assets	**31,570**	14,913
Deferred tax liabilities:		
Intangible assets due to differences in amortization methods and lives	**(8,013)**	(6,963)
Deferred compensation primarily due to timing of contributions to the profit sharing plan	**—**	(855)
Property and equipment due to difference in depreciation and amortization methods and lives	**(34,867)**	(39,435)
Other	**(1,414)**	(1,663)
Total deferred tax liabilities	**(44,294)**	(48,916)
Net deferred tax liability	**$(12,724)**	$(34,003)

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 carry-backs 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 stores and distribution center operating leases are as follows:

2006	$ 243,170
2007	212,911
2008	174,527
2009	138,510
2010	96,225
Thereafter	149,720
Total minimum lease payments	$1,015,063

The above future minimum lease payments include amounts for leases that were signed prior to January 28, 2006 for stores that were not open as of January 28, 2006.

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 $1,545 under operating leases.

Minimum and Contingent Rentals

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

	Year Ended January 28, 2006	Year Ended January 29, 2005	Year Ended January 31, 2004
Minimum rentals	**$225,791**	$200,718	$167,127
Contingent rentals	**740**	899	1,229

Non-Operating Facilities

The Company is responsible for payments under leases for certain closed stores. The Company was also responsible for payments under leases for two former distribution centers whose leases expired in June 2005 and September 2005. The Company accounts for abandoned lease facilities in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. A facility is considered abandoned on the date that the Company ceases to use it. On this date, the Company records an expense for the present value of the total remaining costs for the abandoned facility reduced by any actual or probable sublease income. Due to the uncertainty regarding the ultimate recovery of the future lease and related payments, the Company recorded charges of $270, $1,472 and $470 in 2005, 2004 and 2003, respectively. The total accrual for these vacated facilities was $124 and $1,472 at January 28, 2006 and January 29, 2005, respectively.

Related Parties

The Company also leases properties for six of its stores from partnerships owned by related parties. The total rental payments related to these leases were $490, $484 and $469 for the years ended January 28, 2006, January 29, 2005 and January 31, 2004, respectively. Total future commitments under related party leases are $1,922.

Freight Services

The Company has contracted outbound freight services from various contract carriers with contracts expiring through April 2008. The total amount of these commitments is approximately $47,200, of which approximately $31,800 is committed in 2006, $13,500 is committed in 2007 and $1,900 is committed in 2008.

Technology Assets

The Company has commitments totaling approximately $6,466 to purchase store technology assets for its stores during 2006.

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. In December 2004, we entered into an additional Letter of Credit Reimbursement and Security Agreement, which provides $50,000 for letters of credit. Letters of credit under both of these agreements both of these agreements are generally issued for the routine purchase of imported merchandise. Approximately $81,599 was committed to these letters of credit at January 28, 2006.

The Company also has approximately $41,116 in letters of credit that serve as collateral for its high-deductible insurance programs and expire in fiscal 2006.

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 $2,003, which is committed through various dates through 2007.

Contingencies

In 2003, the Company was served with a lawsuit in California state court by a former employee who alleged that employees did not properly receive sufficient meal breaks and paid rest periods. He also alleged other wage and hourly violations. The suit requested that the California state court certify the case as a class action. This suit was dismissed with prejudice in May 2005, and the dismissal has been appealed. In May 2005, a new suit alleging similar claims was filed in California.

In 2005, the Company was served with a lawsuit by former employees in Oregon who allege that they did not properly receive sufficient meal breaks and paid rest periods. They also allege other wage and hour violations. The plaintiffs have requested the Oregon state court to certify the case as a class action.

In 2006, the Company was served with a lawsuit by former employees in Washington who allege that they did not properly receive sufficient meal breaks and paid rest periods. They also allege other wage and hour violations. The plaintiffs have requested the Washington state court to certify the case as a class action.

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.

The Company was served in another lawsuit that alleged various intellectual property violations. The Company settled the lawsuit in May 2005. The terms of the settlement are confidential and the Company is indemnified by a supplier.

NOTE 5 – LONG-TERM DEBT

Long-term debt at January 28, 2006 and January 29, 2005 consists of the following:

	January 28, 2006	January 29, 2005
$450,000 Unsecured Revolving Credit Facility, interest payable monthly at LIBOR, plus 0.475%, which was 4.8% at January 28, 2006, principal payable upon expiration of the facility in March 2009	**$250,000**	$250,000
Demand Revenue Bonds, interest payable monthly at a variable rate which was 4.6% at January 28, 2006, principal payable on demand, maturing June 2018	**19,000**	19,000
Total long-term debt	**269,000**	269,000
Less current portion	**19,000**	19,000
Long-term debt, excluding current portion	**$250,000**	$250,000

Maturities of long-term debt are as follows: 2006 – $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 an unsecured Loan Agreement with the Mississippi Business Finance Corporation (MBFC) under which the MBFC issued Taxable Variable Rate Demand Revenue Bonds (the Bonds) in an aggregate principal amount of $19,000 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 contain a demand provision and, therefore, are classified as current liabilities.

NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of interest rate swaps at January 28, 2006 and January 29, 2005, is approximately $166 and $1,548, respectively, and is recorded in "other liabilities" on the accompanying consolidated balance sheets.

Non-Hedging Derivatives

At January 28, 2006, 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%

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

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 expired in 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 28, 2006 and January 29, 2005.

Net Income Per Share

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

	Year Ended January 28, 2006	Year Ended January 29, 2005	Year Ended January 31, 2004
Basic net income per share:			
Net income	**$173,918**	$180,250	$177,583
Weighted average number of shares outstanding	**108,335**	113,296	114,641
Basic net income per share	**$ 1.61**	$ 1.59	$ 1.55
Diluted net income per share:			
Net income	**$173,918**	$180,250	$177,583
Weighted average number of shares outstanding	**108,335**	113,296	114,641
Dilutive effect of stock options and restricted stock (as determined by applying the treasury stock method)	**424**	690	940
Weighted average number of shares and dilutive potential shares outstanding	**108,759**	113,986	115,581
Diluted net income per share	**$ 1.60**	$ 1.58	$ 1.54

At January 28, 2006, January 29, 2005 and January 31, 2004, respectively, 3,379,855, 1,457,329 and 203,015 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

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

	Year Ended January 28, 2006	Year Ended January 29, 2005	Year Ended January 31, 2004
Net income	**$173,918**	$180,250	$177,583
Fair value adjustment-derivative cash flow hedging instrument	**618**	1,113	475
Income tax expense	**238**	429	183
Fair value adjustment, net of tax	**380**	684	292
Amortization of SFAS No. 133 cumulative effect	**(41)**	(13)	24
Income tax benefit (expense)	**16**	5	(9)
Amortization of SFAS No. 133 cumulative effect, net of tax	**(25)**	(8)	15
Total comprehensive income	**$174,273**	$180,926	$177,890

The cumulative effect recorded in "accumulated other comprehensive income (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 2005, the Company repurchased 1,990,142 shares for approximately $55,300 under this authorization.

In March 2005, the Company's Board of Directors authorized the repurchase of up to $300,000 of the Company's common stock through March 2008 and concurrently terminated the November 2002 authorization. As of the termination date, the Company had repurchased 5,065,495 shares for approximately $141,965, under the November 2002 authorization. In fiscal 2005, the Company repurchased 5,034,308 shares for approximately $125,098 under the March 2005 authorization. From January 29, 2006 through March 31, 2006, the Company repurchased additional shares totaling $22,600 under this 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 28, 2006	**$ 6,885**
Year Ended January 29, 2005	8,530
Year Ended January 31, 2004	10,964

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 $2,050 and $1,516, respectively, at January 28, 2006 and January 29, 2005 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 28, 2006, January 29, 2005 and January 31, 2004.

NOTE 9 – STOCK-BASED COMPENSATION PLANS

At January 28, 2006, 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 the purchase of 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 in December 1998 and in accordance with the terms of the SAI Plan, outstanding 98 Cent Clearance Center options were assumed by the Company and converted, based on 1.6818 Company options for each 98 Cent Clearance Center option, to options to purchase the Company's common stock. Options issued as a result of this conversion were fully vested as of the date of the merger.

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

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 three-year period, with a maximum term of 10 years.

In 2005, the Company granted 270,407 RSUs from the 2003 EIP and the 2004 EOEP to its employees and officers. The fair value of these RSUs of $6,759 is being expensed ratably over the three-year vesting periods. The fair value was determined using the Company's closing stock price on the date of grant. The Company recognized $1,497 of expense related to the RSUs for the year ended January 28, 2006.

In 2005, the Company granted 40,000 RSUs from the 2004 EOEP to certain officers of the Company, contingent on the Company meeting certain performance targets in 2005 and future service of these officers through various points through July 2007. The Company met these performance targets in fiscal 2005; therefore, the fair value of these RSUs of $1,001 is being expensed over the service period. The fair value of these RSUs was determined using the Company's closing stock price on January 28, 2006 (the last day of fiscal 2005), when the performance targets were satisfied. The Company recognized $725 in compensation expense related to these RSUs in the year ended January 28, 2006.

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

Any restricted stock or RSUs awarded are subject to certain general restrictions. The restricted stock shares 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 2005	Fiscal 2004	Fiscal 2003
Expected term in years	**4.7**	5.3	5.4
Expected volatility	**48.7%**	59.8%	60.7%
Annual dividend yield	**—**	—	—
Risk free interest rate	**3.7%**	3.7%	3.4%

The following tables summarize the Company's various option plans as of January 28, 2006, January 29, 2005 and January 31, 2004 and information about fixed options outstanding at January 28, 2006. As discussed in Note 1, the Company's Board of Directors, vested all options outstanding as of December 15, 2005. This is reflected in the tables below.

Stock Option Activity

	January 28, 2006		January 29, 2005		January 31, 2004	
	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	**6,547,419**	**$24.47**	6,007,471	$23.81	5,414,023	$24.19
Granted	**320,220**	**24.88**	1,682,572	25.52	1,904,057	20.54
Exercised	**(407,077)**	**18.61**	(608,432)	19.58	(993,841)	19.57
Forfeited	**(469,805)**	**25.30**	(534,192)	25.90	(316,768)	24.01
Outstanding, end of period	**5,990,757**	**24.71**	6,547,419	24.47	6,007,471	23.81
Options exercisable at end of period	**5,980,757**	**24.71**	3,282,102	24.52	2,649,188	24.31
Weighted average fair value of options granted during the period		**$11.27**		$14.27		$17.08

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding at January 28, 2006	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at January 28, 2006	Weighted Average Exercise Price
$0.86	7,919	N/A	$ 0.86	7,919	$ 0.86
$2.95 to $10.98	39,300	1.1	10.00	39,300	10.00
$10.99 to $21.28	1,682,875	6.2	19.26	1,682,875	19.26
$21.29 to $29.79	2,989,421	6.3	24.84	2,979,421	24.84
$29.80 to $42.56	1,271,242	5.9	32.23	1,271,242	32.23
$0.86 to $42.56	5,990,757			5,980,757	

Employee Stock Purchase Plan

Under the Dollar Tree Stores, Inc. Employee Stock Purchase Plan (ESPP), the Company is authorized to issue up to 1,040,780 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 792,813 shares as of January 28, 2006.

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 2005	Fiscal 2004	Fiscal 2003
Expected term	**3 months**	3 months	3 months
Expected volatility	**12.0%**	15.6%	19.8%
Annual dividend yield	**—**	—	—
Risk free interest rate	**3.9%**	2.1%	1.1%

The weighted average per share fair value of those purchase rights granted in 2005, 2004, and 2003 was $4.11, $4.93 and $4.60, 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 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 SKM Partners, L.L.C., which serves as the general partner of SKM Equity. John Megrue is also a principal member of Apax Partners, L.P., which serves as the general partner for SKM Investment. 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 – SUBSEQUENT EVENT

In March 2006, the Company completed its acquisition of 138 Deal$ stores for approximately $30,500 of store related assets and $22,200 of store and distribution center inventory. These amounts are subject to post closing adjustments based on the results of physical inventory counts. These stores are primarily in the Midwest part of the United States and the Company has existing logistics capacity to service these stores with no additional capital expenditure. This acquisition also includes a few "combo" stores that offer an expanded assortment of merchandise including items that sell for more than $1. Substantially all Deal$ stores acquired will continue to operate under the Deal$ banner while providing the Company an opportunity to leverage its Dollar Tree infrastructure in the testing of new merchandise concepts, including higher price points without disrupting the single-price point model in its Dollar Tree stores.

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 2005 and 2004. The unaudited information has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this report and includes all adjustments, consisting only of normal recurring adjustments, which management considers necessary for a fair presentation of the financial data shown. The operating results for any quarter are not necessarily indicative of results for a full year or for any future period.

	First Quarter(1)	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2005:				
Net sales	**$ 749,093**	**$ 769,027**	**$ 796,787**	**$1,079,017**
Gross profit	**254,244**	**261,486**	**276,264**	**380,369**
Operating income	**48,074**	**46,584**	**52,120**	**136,461**
Net income	**29,012**	**27,310**	**31,097**	**86,499**
Diluted net income per share	**0.26**	**0.25**	**0.29**	**0.81**
Stores open at end of quarter	**2,791**	**2,856**	**2,899**	**2,914**
Comparable store net sales change	**(3.7%)**	**(1.5%)**	**(1.0%)**	**1.0%**
Fiscal 2004:				
Net sales	$710,330	$704,234	$723,967	$ 987,478
Gross profit(2)	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%

(1) Easter was observed on March 27, 2005 and April 11, 2004.

(2) The Company recognized $5,751, or $0.05 per diluted share in the fourth quarter of 2004 to reflect the cumulative impact of a correction of its lease accounting practices. Approximately $1,230, or $0.01 per diluted share related to fiscal 2004.

BOARD OF DIRECTORS

Macon F. Brock, Jr., *Chairman*
Mary Anne Citrino
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 A. 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

Robert H. Rudman,
Chief Merchandising Officer

Michael A. Saltzer,
Senior Vice President, New Business Development

Stephen W. White,
Chief Logistics Officer

James A. Gorry, III
General Counsel and Corporate Secretary

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP
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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 2005 and 2004.

STOCK PRICE

	HIGH	LOW
2005		
First Quarter	$ 29.04	$ 23.95
Second Quarter	26.01	22.77
Third Quarter	25.65	20.56
Fourth Quarter	25.48	20.66
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

ANNUAL MEETING

You are cordially invited to attend our Annual Meeting of Shareholders, which will be held at 10:00 a.m. on Wednesday, June 14, 2006, at the Dollar Tree Joliet Distribution Center, 300 Dollar Tree Lane, Joliet, Illinois.

FISCAL 2006 EARNINGS RELEASE CALENDAR*

First quarter: May 24
Second quarter: August 23
Third quarter: November 21
Fourth quarter: February 28, 2007

** Dates are subject to change.*

INVESTORS' INQUIRIES

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

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

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