UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(X) **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended January 31, 2004

Commission File No.0-25464

DOLLAR TREE STORES, INC.
(Exact name of registrant as specified in its charter)

Virginia	**54-1387365**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

500 Volvo Parkway, Chesapeake, VA 23320
(Address of principal executive offices)

Registrant's telephone number, including area code: (757) 321-5000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
None	**None**

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock (par value $.01 per share)
(Title of Class)

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes (X) No ( )

The aggregate market value of Common Stock held by non-affiliates of the Registrant on August 2, 2003, was $4,208,274,759 based on a $36.67 average of the high and low sales prices for the Common Stock on such date. For purposes of this computation, all executive officers and directors have been deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers and directors are, in fact, affiliates of the Registrant.

On April 5, 2004, there were 113,593,263 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information regarding securities authorized for issuance under equity compensation plans called for in Item 5 of Part II and the information called for in Items 10, 11, 12, 13 and 14 of Part III are incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders of the Company to be held June 17, 2004, which will be filed with the Securities and Exchange Commission not later than April 29, 2004.

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

- our anticipated sales, including comparable store net sales, net sales growth and earnings growth;
- our growth plans, including our plans to add, expand or relocate stores, our anticipated square footage increase, and our ability to renew leases at existing store locations;
- the average size of our stores to be added in 2004 and beyond;
- the net sales per square foot, net sales and operating income attributable to smaller and larger stores and store-level cash payback periods;
- the possible effect of inflation and other economic changes on our costs and profitability, including the possible effect of future changes in shipping rates, domestic and foreign freight costs, fuel costs, minimum wage rates and wage and benefit costs;
- our cash needs, including our ability to fund our future capital expenditures and working capital requirements;
- our gross profit margin, earnings, inventory levels and ability to leverage selling, general and administrative costs;
- our seasonal sales patterns including those relating to the length of the holiday selling seasons;
- changes in our merchandise mix and the effect on gross profit margin and sales;
- the capabilities of our inventory supply chain technology, planned labor management system and other new systems;
- the future reliability of, and cost associated with, our sources of supply, particularly imported goods such as those sourced from China;
- the capacity, performance and cost of our existing and planned distribution centers, including opening and expansion schedules;
- our expectations regarding competition and growth in our retail sector;
- costs of pending and possible future legal claims;
- management's estimates associated with our critical accounting policies, including inventory valuation, accrued expenses, and income taxes;
- the adequacy of our internal financial reporting controls;
- the possible effect on our financial results of changes in generally accepted accounting principles relating to accounting for stock-based compensation;

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

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the risk factors described below, as well as "Management’s Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 13. Our risk factors include:

- The outbreak of war and other national and international events, such as terrorism, could lead to disruptions in the economy. Adverse economic conditions, such as reduced consumer confidence and spending, could significantly reduce our sales. Bad weather could also prevent us from meeting our sales and operating forecasts.
- Our profitability is vulnerable to future increases in operating and merchandise costs including shipping rates, freight costs, fuel costs, wage levels, inflation, competition and other adverse economic factors because we sell goods at the fixed $1.00 price point.

- We could fail to meet our goals for opening, expanding or relocating stores on a timely basis, which would cause our sales to suffer. We may not anticipate all the challenges that our expanding operations will impose and, as a result, we may not meet our targets for opening new stores and expanding profitability. In addition, new or expanded stores will cause sales at nearby stores to suffer, and we could have difficulties profitably renewing or replacing expiring leases.

- We realize a disproportionately larger amount of our sales and net income during the Christmas and Easter seasons. If for any reason our sales were below expectations during the Christmas and Easter selling seasons, our operating results could suffer materially.

- Our sales and profits could be reduced by increases in competition, especially because there are no significant economic barriers for others to enter our retail segment.

- The performance of our distribution system is critical to our operations. We must expand or replace existing distribution centers and build new ones in a timely manner or we will not meet our growth plans. Unforeseen disruptions or costs in operating and expanding our systems, including our receiving and distribution systems, could harm our sales and profitability.

- Our merchandise mix relies heavily on imported goods. An increase in the cost or disruption of the flow of these goods may significantly decrease our sales and profits because any transition to alternative sources may not occur in time to meet our demands. In addition, products from alternative sources may also be of lesser quality and more expensive than those we currently import.

- Disruptions in the availability of quality, low-cost merchandise in sufficient quantities to maintain our growth may reduce our sales and profits.

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

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, we do not, by policy, selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, shareholders should not assume that we agree with any statement or report issued by any 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 reference to "2003" or "fiscal 2003" relates to as of or for the year ended January 31, 2004 and any reference to "2004" or "fiscal 2004" relates to as of or for the year ended January 29, 2005. Any references to "2002" and "2001" or "fiscal 2002" and "fiscal 2001" relate to as of or for the years ended December 31, 2002 and 2001, 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 web site at www.dollartree.com as soon as reasonably practicable after electronic filing of such reports with the SEC.

PART I

Item 1. BUSINESS

Overview

Since our founding in 1986, we have become the leading operator of discount variety stores offering merchandise at the fixed price of $1.00. We believe the variety and quality of products we sell for $1.00 sets us apart from our competitors. At January 31, 2004, we operated 2,513 single-price point stores under the names of Dollar Tree, Greenbacks, Dollar Express, Dollar Bills, Only One Dollar, and Only $One.

Since 1986, we have evolved from opening primarily mall-based stores ranging between 1,500 and 2,500 selling square feet to opening primarily strip shopping center-based stores averaging 10,000 to 15,000 selling square feet. In the past five years, we gradually increased the average size of our stores as we improved our merchandise offerings and service to our customers. At December 31, 1998, we operated 1,285 stores in 31 states; at January 31, 2004, we operated 2,513 stores in 47 states. Over the same time period, our selling square footage increased from approximately 4.9 million square feet in December 1998 to 16.9 million square feet in January 2004. Our store growth since 1998 has resulted from opening new stores and completing mergers and acquisitions. We centrally manage our store and distribution operations from our corporate headquarters in Chesapeake, Virginia.

Change in Fiscal Year End

In January 2003, we changed our fiscal year end to a retail fiscal year ending on the Saturday closest to January 31.

Business Strategy

Value Merchandise Offering. We strive to exceed our customers' expectations of the variety and quality of products that they can purchase for $1.00 by offering items that we believe typically sell for higher prices elsewhere. We buy approximately 60% of our merchandise domestically and directly import the remaining 40%. Our domestic purchases include closeouts. We believe our mix of imported and domestic merchandise affords our buyers flexibility that allows them to consistently exceed the customer's expectation. In addition, direct relationships with manufacturers permit us to select from a broad range of products, and customize packaging, product sizes and package quantities that meet our customers' needs.

Mix of Basic Variety and Seasonal Merchandise. We maintain a balanced selection of products within traditional variety store categories. We offer a wide selection of everyday basic products and we supplement these basic, everyday items with seasonal and closeout merchandise. We attempt to keep certain basic consumable merchandise in our stores continuously to establish our stores as a destination. Closeout merchandise is purchased opportunistically and represents less than 10% of our purchases. National, regional and private-label brands have become a bigger part of our merchandise mix.

Our merchandise mix consists of:

- consumable merchandise, which includes candy and food, health and beauty care, and housewares such as paper, plastics and household chemicals;
- variety merchandise, which includes toys, durable housewares, gifts, party goods, greeting cards, hardware, and other items; and
- seasonal goods such as Easter, summer toys, lawn and garden, Halloween and Christmas merchandise.

Our larger stores, which appeal to a broader demographic mix, carry more consumable merchandise than smaller stores. As a result, consumable merchandise has grown as a percentage of purchases and sales. Our larger stores also allow us to increase our seasonal offering and presentation resulting in increasing our seasonal purchases as a percentage of our total purchases. The following table shows the percentage of purchases of each major product group for the years ended January 31, 2004 and December 31, 2002:

Merchandise Type	**January 31, 2004**	**December 31, 2002**
Variety categories	49.5%	50.6%
Consumable	41.2%	40.5%
Seasonal	9.3%	8.9%

Convenient Locations and Store Size. We primarily focus on opening new stores in strip shopping centers anchored by mass merchandisers, whose target customers we believe to be similar to ours, and in neighborhood centers anchored by large grocery retailers. Our stores have proven successful in metropolitan areas, mid-sized cities and small towns. The range of our store sizes allows us to target a particular location with a store that best suits that market and takes advantage of available real estate opportunities. Our stores are attractively designed and create an inviting atmosphere for shoppers by using bright lighting, vibrant colors, uniform decorative signs and background music. We enhance the store design with attractive merchandise displays. We believe this design attracts new and repeat customers and enhances our image as both a destination and impulse store.

For more information on retail locations and retail store leases, see "Properties" on page 9.

Profitable Stores with Strong Cash Flow. We maintain a disciplined, cost-sensitive approach to store site selection in order to minimize the initial capital investment required and maximize our potential to generate high operating margins and strong cash flows. We believe that our stores have a relatively small shopping radius, which allows us to profitably concentrate multiple stores in a single market. Our ability to open new stores is dependent upon, among other factors, locating suitable sites and negotiating favorable lease terms.

On a cash basis, our stores have historically experienced a payback period of approximately 12 to 15 months and we expect this trend to continue. Following is a reconciliation of our operating income margin, as determined under generally accepted accounting principles, to the store-level cash operating income margin for all stores combined.

	2003	2002	2001	2000	1999
Corporate operating income margin	10.5%	10.9%	10.3%	12.0%	13.0%
Add freight, distribution costs, corporate overhead and depreciation	11.8%	11.5%	12.7%	12.0%	11.2%
Store-level cash operating income margin	22.3%	22.4%	23.0%	24.0%	24.2%

During the past five years, we have maintained our store-level cash operating income margins in the 22.3% to 24.2% range. Store-level cash operating income margin represents the operating results of our stores based on revenues and costs that are directly associated with the individual stores, excluding depreciation. This measure excludes several components of our corporate operating margin as calculated in accordance with generally accepted accounting principles because these components are not directly associated with or allocable to the individual stores. Management believes that this measure is important in evaluating our performance because the measure is used by management and investors to evaluate the performance of the stores in relation to one another and in relation to industry peers and benchmarks. Stores whose first full year of operations was 2003 had average store-level cash operating income margin of approximately 22.5%, which was slightly lower than the 22.7% average for all stores with a full year’s operations in fiscal 2003.

Our older, smaller stores continue to generate significant store-level operating income and operating cash flows and have some of the highest operating margins among our stores; however, the increased size of our newer stores allows us to offer a wider selection of products, including more basic consumable merchandise, thereby making them more attractive as a destination store.

The strong cash flows generated by our stores allow us to grow primarily using internally generated funds. Over the past five years, cash flows from operating activities have exceeded capital expenditures.

For more information on our results of operations, see "Management's Discussion and Analysis – Results of Operations" on page 15. For more information on seasonality of sales, see "Management's Discussion and Analysis – Seasonality and Quarterly Fluctuations" on page 22.

Cost Control. We believe that substantial buying power at the $1.00 price point contributes to our successful purchasing strategy, which includes disciplined, targeted merchandise margin goals by category. We believe our disciplined buying and quality merchandise help to minimize markdowns. We buy products on an order-by-order basis and have no material long-term purchase contracts or other assurances of continued product supply or guaranteed product cost. No vendor accounted for more than 10% of total merchandise purchased in any of the past five years.

During 2002, we upgraded our supply chain systems and identified other processes that could be improved using technology. These new systems continue to provide us with valuable sales information to assist our buyers and improve merchandise allocation to our stores. Controlling our inventory levels will result in more efficient distribution and store operations.

Payroll and related costs are a significant component of our selling, general and administrative costs. Accordingly, we believe that more efficient use of labor hours in our stores could increase our profitability. In an effort to optimize hours worked in our stores, we expect to roll out a new labor management and scheduling system during fiscal 2004.

Information Systems. We believe that investments in appropriate technology help us to increase sales and control costs. In 2002, we implemented a new inventory management system. Our new system has allowed us to improve the efficiency of our supply chain, improve merchandise flow and control distribution and store operating costs.

In 2003, we piloted our automatic replenishment system. This system automatically reorders key items, based on actual store level sales. In 2004, we expect to roll out this system to additional stores and merchandise categories.

At January 31, 2004, we operated point-of-sale systems in 1,855 stores and we expect to install point-of-sale systems in virtually all remaining stores that will benefit from it by the end of fiscal 2004. Point-of-sale data allows us to track sales by merchandise category and geographic region as well as assists in planning for future purchases of inventory. We believe that this information will allow us to ship the appropriate product to the correct store at the proper time.

Corporate Culture and Values. We believe that honesty and integrity, doing the right things for the right reasons, and treating people fairly and with respect are core values within our corporate culture. We believe that running a business, and certainly a public company, carries with it a responsibility to be beyond reproach when making operational and financial decisions. Our management team visits and shops our stores like every customer; we have an open door policy to all our associates; and ideas and individuality are encouraged. We have standards for store displays, merchandise presentation, and store operations. Our distribution centers are operated based on objective measures of performance and everyone in our store support center is available to help associates in the stores and distribution centers get their jobs done.

Our disclosure committee, headed by our corporate controller, meets at least quarterly and identifies and monitors our internal financial reporting controls and ensures that our public filings contain discussions about the risks our business faces. We believe that we have the controls in place to be able to certify our financial statements. Additionally, we have complied with the updated listing requirements for the Nasdaq Stock Market.

Growth Strategy

Store Openings and Square Footage Growth. The primary factors contributing to our net sales growth have been new store openings, an active store expansion and remodel program and selective mergers and acquisitions. From 1999 to 2003, net sales increased at a compound annual growth rate of 20.0% and operating income increased at a compound annual growth rate of 13.6%. We expect that the substantial majority of our future sales growth will come primarily from new store openings and secondarily from our store expansion and remodeling program.

The following table shows the total selling square footage of our stores and the selling square footage per new store opened over the last five years. We began opening larger stores after the acquisition of 98 Cent Clearance Center in 1998. Our growth and productivity statistics will be reported based on selling square footage prospectively because our management believes the use of selling square footage yields a more accurate measure of store productivity. The selling square footage statistics for 1999 through 2000 are estimates based on the relationship of selling to gross square footage.

Year	Number of Stores	Average Selling Square Footage Per Store	Average Selling Square Footage Per New Store Opened
1999	1,507	4,055	4,765
2000	1,729	4,520	6,240
2001	1,975	5,130	7,070
2002	2,263	5,763	7,783
2003	2,513	6,716	9,948

We expect to increase our selling square footage in the future by opening new stores in underserved markets and strategically increasing our presence in our existing markets via new store openings and store expansions (expansions include store relocations). In fiscal 2004 and beyond, we plan to predominantly open stores that are approximately 10,000 to 15,000 selling square feet and we believe this size range allows us to achieve our objectives in the markets in which we plan to expand. At January 31, 2004, 356 of our stores, totaling 28.3% of our selling square footage, were 10,000 selling square feet or larger.

In addition to new store openings, we plan to continue our store expansion program to increase our net sales per store and take advantage of market opportunities. We target stores for expansion based on the current sales per selling square foot and changes in market opportunities. Stores targeted for expansion are generally less than 4,000 selling square feet in size. Store expansions generally increase the existing store size by approximately 6,000 to 10,000 selling square feet.

Since 1995, we have added a total of 471 stores through four mergers and several small acquisitions. Our acquisition strategy has been to target companies with a similar single price point concept that have shown success in operations or provide a strategic advantage. We evaluate potential acquisition opportunities in our retail sector as they become available.

Merchandising and Distribution. Expanding our customer base is important to our growth plans. We plan to continue to stock our new stores with the ever-changing merchandise that our current customers have come to appreciate. In addition, we are opening larger stores that contain more basic consumable merchandise to attract new customers. Consumable merchandise typically leads to more frequent return trips to our stores resulting in increased sales. The presentation and display of merchandise in our stores are critical to communicating value to our customers and creating a more exciting shopping experience. We believe our approach to visual merchandising results in high store traffic, high sales volume and an environment that encourages impulse purchases.

A strong and efficient distribution network is key to our ability to grow and to maintain a low-cost operating structure. We currently operate nine distribution centers and plan to open a replacement distribution center for our Chicago distribution center in mid-year 2004. These distribution centers in total will be capable of supporting approximately $4.5 billion in annual sales. We expect to continue to add distribution capacity to support our store opening plans, with the aim of remaining approximately one year ahead of our distribution needs. New distribution sites are strategically located to reduce stem miles, maintain flexibility and improve efficiency in our store service areas.

Our stores receive approximately 96% of their inventory from our distribution centers via contract carriers. The remaining store inventory, primarily perishable consumable items and other vendor-maintained display items, are delivered directly to our stores from vendors. For more information on our distribution center network, see "Properties" below.

Competition

The retail industry is highly competitive and we expect competition to increase in the future. The value discount retail sector currently represents approximately 10% of the $300 billion discount retail market and appears to be the fastest growing sector. Our value discount retail competitors include Family Dollar, Dollar General, 99 Cents Only and Big Lots. The principal methods of competition include convenience and the quality of merchandise offered to the customer. Though we are a fixed-price point retailer, we also compete with mass merchandisers, such as Wal-Mart and Target, and regional discount retailers. In addition, several mass merchandisers and grocery store chains are now testing "dollar store" concepts in their stores, which will increase competition. Our sales and profits could be reduced by increases in competition, especially because there are no significant economic barriers for others to enter our retail sector.

Trademarks

We are the owners of federal service mark registrations for "Dollar Tree," the "Dollar Tree" logo, "1 Dollar Tree" together with the related design, and "One Price...One Dollar." A small number of our stores operate under the name "Only One Dollar," for which we have not obtained a service mark registration. We also own a concurrent use registration for "Dollar Bill$" and the related logo. During 1997, we acquired the rights to use trade names previously owned by Everything's A Dollar, a former competitor in the $1.00 price point industry. Several trade names were included in the purchase, including the marks "Everything's $1.00 We Mean Everything," and "Everything's $1.00," the registration of which is pending. With the acquisition of Dollar Express, we became the owner of the service marks "Dollar Express" and "Dollar Expres$." We became the owners of the "Greenbacks All A Dollar" and "All A Dollar" service marks, with the acquisition of Greenbacks. We have applied for federal trademark registrations for various private labels that we use to market some of our product lines.

Employees

We employed approximately 9,600 full-time and 19,100 part-time associates on January 31, 2004. The number of part-time associates fluctuates depending on seasonal needs. We consider our relationship with our associates to be good, and we have not experienced significant interruptions of operations due to labor disagreements. None of our employees is subject to collective bargaining agreements.

Item 2. PROPERTIES

Stores

As of January 31, 2004, we operated 2,513 stores in 47 states as detailed below:

Alabama	68	Maine	3	Oklahoma	35
Arizona	28	Maryland	72	Oregon	49
Arkansas	33	Massachusetts	22	Pennsylvania	171
California	160	Michigan	95	Rhode Island	8
Colorado	16	Minnesota	25	South Carolina	63
Connecticut	17	Mississippi	44	South Dakota	2
Delaware	15	Missouri	53	Tennessee	77
Florida	184	Montana	1	Texas	141
Georgia	117	Nebraska	8	Utah	24
Idaho	8	Nevada	17	Vermont	4
Illinois	96	New Hampshire	10	Virginia	123
Indiana	68	New Jersey	56	Washington	30
Iowa	17	New Mexico	9	West Virginia	26
Kansas	21	New York	116	Wisconsin	51
Kentucky	52	North Carolina	130	Wyoming	1
Louisiana	44	Ohio	103		

We currently lease our stores and expect to continue to lease new stores as we expand. Our leases typically provide for a short initial lease term (generally five years) with options to extend. We believe this leasing strategy enhances our flexibility to pursue various expansion opportunities resulting from changing market conditions.

As current leases expire, we believe that we will be able to obtain lease renewals, if desired, for present store locations, or to obtain leases for equivalent or better locations in the same general area. To date, we have not experienced significant difficulty in either renewing leases for existing locations or securing leases for suitable locations for new stores. From time to time we may not comply with certain provisions of our store operating leases. We maintain good relations with our landlords and believe that violation of these lease provisions, if any, will not have a material effect on our operations.

Distribution Centers

The following table includes information about the distribution centers that we currently operate. By mid-year 2004, we are planning to replace our Chicago distribution center with a newly constructed automated 1.2 million square foot distribution center located in Joliet, Illinois. Once our Joliet facility is operational, we believe our distribution center network will be capable of supporting a total of approximately $4.5 billion in annual sales.

Location	Own/Lease	Lease Expires	Size in Square Feet
Chesapeake, Virginia	Own	N/A	400,000
Olive Branch, Mississippi	Own	N/A	425,000
Chicago, Illinois	Lease	June 2005, with options to renew	250,000
Stockton, California	Own	N/A	525,000
Briar Creek, Pennsylvania	Own	N/A	603,000
Savannah, Georgia	Own	N/A	603,000
Marietta, Oklahoma	Own	N/A	603,000
Salt Lake City, Utah	Lease	August 2005	252,000
Ridgefield, Washington	Own	N/A	665,000

In February 2004, we opened our newly built distribution center in Ridgefield, Washington. This distribution center is a 665,000 square foot facility that can be expanded in the future to accommodate our growth needs. In addition to our distribution centers noted above, during the past several years we have used off-site facilities to accommodate limited quantities of seasonal merchandise.

Four of our distribution centers were financed through a variable interest entity, which we included in our consolidated financial statements effective January 1, 2003. The variable interest entity owned these distribution center assets and carried the debt used to finance them. Terms of the debt, among other things, required the maintenance of certain specified financial ratios, restricted the payment of certain distributions and limited certain types of debt we could incur. In March 2004, we refinanced the debt related to the variable interest entity (see Note 14 in the Notes to Consolidated Financial Statements on page 50).

With the exception of our Chicago, Salt Lake City and Ridgefield facilities, each of our distribution centers contains advanced materials handling technologies, including an automated conveyor and sorting system, radio-frequency inventory tracking equipment and specialized information systems.

We have a former distribution center for which we are liable for future rents. The lease on this facility expires in September 2005. We will continue to make every effort to sublease this facility. The lease on our Chicago distribution center expires in June 2005. We are making an effort to find a tenant to sublease the facility when we vacate it later this year to move to our new facility in Joliet; however, if we are unable to locate a suitable tenant, we would have to record a charge for our future obligations under this lease of approximately $1.0 million.

For more information on financing of our distribution centers, see "Management's Discussion and Analysis - Funding Requirements" on page 19. For more information on our liability for future rents and related costs, see "Management's Discussion and Analysis - Inflation and Other Economic Factors" on page 23.

Item 3. LEGAL PROCEEDINGS

From time to time, we are defendants in ordinary, routine litigation and proceedings incidental to our business, including allegations regarding:

- employment related matters;
- product safety matters, including product recalls by the Consumer Products Safety Commission;
- personal injury claims; and
- the infringement of the intellectual property rights of others.

We have been sued in California by several employees and in Alabama by a salaried store manager and a former store manager who allege, among other things, that they should have been classified as non-exempt employees and, therefore, should have received overtime compensation. The suits also request that the California state court certify the case as a class action on behalf of all store managers, assistant managers and merchandise managers in our California stores and request that the Alabama Federal Court certify the case as a collective action under the Fair Labor Standards Act on behalf of all salaried managers in all of our stores. We were also sued in California on November 3, 2003 by a former store manager who alleges that certain employees should have received meal period breaks and paid rest periods. As in the other California lawsuit, he also alleges that he and other salaried managers should have been classified as non-exempt employees and, therefore, should have received overtime compensation. The suit also requests that the California state court certify the case as a class action. We will vigorously defend ourselves in all these matters.

We do not believe that any of these matters will individually, or in the aggregate, have a material adverse affect on our business or financial condition.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of our 2003 fiscal year.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our 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 as reported by Nasdaq for the periods indicated.

	High	Low
Fiscal year ended February 1, 2003:		
First Quarter	$ 38.62	$ 28.65
Second Quarter	41.00	26.26
Third Quarter	31.00	19.08
Fourth Quarter	30.59	21.22
Fiscal year ended January 31, 2004:		
First Quarter	$ 22.39	$ 17.40
Second Quarter	33.81	20.13
Third Quarter	39.75	32.51
Fourth Quarter	38.74	27.36

On April 5, 2004, the last reported sale price for our common stock, as quoted by Nasdaq, was $31.18 per share. As of April 5, 2004, we had approximately 605 shareholders of record.

The following chart presents our repurchase activity for the fourth quarter of 2003.

ISSUER PURCHASES OF EQUITY SECURITIES(1)

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands)
November 2 to November 29, 2003.......	--	$ --	--	$ 200,000
November 30, 2003 to January 3, 2004..	890,400	$ 29.52	890,400	$ 173,700
January 4 to January 31, 2004.........	395,000	$ 31.31	395,000	$ 161,300
Total..............................	1,285,400	$ 30.07	1,285,400	$ 161,300

(1) In November 2002, our Board of Directors authorized the repurchase of up to $200 million of our common stock.

We anticipate that substantially all of our income in the foreseeable future will be retained for the development and expansion of our business, the repayment of indebtedness and, as authorized by our Board of Directors, the repurchase of stock. Management does not anticipate paying dividends on our common stock in the foreseeable future. In addition, our credit facilities contain financial covenants that restrict our ability to pay cash dividends.

Item 6. SELECTED FINANCIAL DATA
(Amounts in thousands, except per share data, number of stores data and net sales per selling square foot data)

The following table presents a summary of our selected financial data for the fiscal year ended January 31, 2004 and the calendar years ended December 31, 2002, 2001, 2000 and 1999. The selected income statement and balance sheet data have been derived from our consolidated financial statements that have been audited by our independent auditors. This information should be read in conjunction with the consolidated financial statements and related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial information found elsewhere in this report. As required by pooling-of-interests accounting, the financial information and operating data of Dollar Tree and our past merger partners, Dollar Express, Only $One and 98 Cent Clearance Center, have been combined and restated as of the beginning of the earliest period presented.

For 2000, operating income was reduced by $4,366, and net income was reduced by $3,134 for charges related to the Dollar Express merger. For 1999, operating income was reduced by $1,050, and net income was reduced by $792, for charges related to the Only $One merger.

Dollar Express and Only $One were treated as S corporations for federal and state income tax purposes through February 4, 1999 and June 29, 1999, respectively. As a result, their income was taxable to their shareholders through those dates. Accordingly, our pro forma net income available to common shareholders and the related per share data reflects the pro forma increase in our C corporation federal and state income tax expense, which would have occurred had these companies been taxed as C corporations for the entire periods presented. Pro forma C corporation income taxes were $505 in 1999.

In our merger with Dollar Express in May 2000, the outstanding preferred stock of Dollar Express was converted to common stock. Pro forma diluted net income per common share would have been $0.96 for the year ended December 31, 1999 if the conversion of preferred stock had taken place on February 5, 1999, the date when the preferred stock was originally issued. This calculation gives effect to an adjustment that increases net income available to common shareholders by $7,409 to eliminate the charge for accrued preferred stock dividends and accretion of preferred stock and warrants for the year ended December 31, 1999. In addition, if the conversion had taken place on February 5, 1999, the weighted average number of common shares and dilutive potential common shares outstanding would have increased by 2,795,000 shares for the year ended December 31, 1999.

In 1999, store-level cash operating income margin excludes stores acquired through our merger in 2000, because store-level data for the acquired stores was not available. A reconciliation of store-level cash operating income margin to operating income margin is presented in "Profitable Stores with Strong Cash Flow" on page 6.

Comparable store net sales compare net sales for stores open throughout each of the two periods being compared, including expanded stores. Net sales per store and net sales per selling square foot are calculated for stores open throughout the period presented.

	Year Ended January 31, 2004	Year Ended December 31, 2002	2001	2000	1999
Income Statement Data:					
Net sales	$2,799,872	$2,329,188	$1,987,271	$1,688,105	$1,351,820
Gross profit	1,012,820	847,956	715,957	623,589	497,253
Selling, general and administrative expenses	719,223	594,035	512,092	420,553	321,657
Operating income	293,597	253,921	203,865	203,036	175,596
Net income	177,583	154,647	123,081	121,622	106,577
Net income available to common shareholders	177,583	154,647	123,081	120,209	99,550
Pro forma net income available to common shareholders	177,583	154,647	123,081	120,209	99,045
Margin Data (as a percentage of net sales):					
Gross profit	36.2%	36.4%	36.0%	36.9%	36.8%
Selling, general and administrative expenses	25.7%	25.5%	25.7%	24.9%	23.8%
Operating income	10.5%	10.9%	10.3%	12.0%	13.0%
Net income	6.3%	6.6%	6.2%	7.2%	7.9%
Net income available to common shareholders	6.3%	6.6%	6.2%	7.1%	7.4%
Pro forma net income available to common shareholders	6.3%	6.6%	6.2%	7.1%	7.3%
Per Share Data:					
Diluted net income available to common shareholders	$ 1.54	$ 1.35	$ 1.09	$ 1.08	$ 0.92
Diluted net income per common share percent change	14.1%	23.9%	0.9%	17.4%	21.1%
Pro forma diluted net income per common share	$ 1.54	$ 1.35	$ 1.09	$ 1.08	$ 0.92
Pro forma diluted net income per common share annual growth	14.1%	23.9%	0.9%	17.4%	29.6%

	As of January 31, 2004	As of December 31, 2002	2001	2000	1999
Balance Sheet Data:					
Cash and short-term investments	$ 168,685	$ 335,972	$ 236,653	$ 181,166	$ 181,587
Working capital	457,467	509,629	360,757	303,209	226,707
Total assets	1,480,306	1,116,377	902,048	746,859	611,233
Total debt	185,151	54,429	62,371	71,730	108,773
Mandatorily redeemable preferred stock	--	--	--	--	35,171
Shareholders' equity	1,014,522	855,404	651,736	518,658	316,238

	Year Ended January 31, 2004	Year Ended December 31, 2002	2001	2000	1999
Selected Operating Data:					
Number of stores open at end of period	2,513	2,263	1,975	1,729	1,507
Gross square footage at end of period	21,416	16,527	12,791	9,832	7,638
Selling square footage at end of period	16,878	13,042	10,129	7,818	6,113
Selling square footage annual growth	27.5%	28.8%	29.6%	27.9%	25.6%
Net sales annual growth	18.7%	17.2%	17.7%	24.9%	26.9%
Comparable store net sales increase	2.9%	1.0%	0.1%	5.7%	5.0%
Net sales per selling square foot	$ 180	$ 199	$ 217	$ 238	$ 245
Net sales per store	$ 1,134	$ 1,083	$ 1,043	$ 1,014	$ 939

	Year Ended January 31, 2004	Year Ended December 31, 2002	2001	2000	1999
Selected Financial Ratios:					
Return on assets......................	13.7%	15.3%	14.9%	17.9%	20.3%
Return on equity......................	19.0%	20.5%	21.0%	29.1%	36.8%
Store-level cash operating income margin	22.3%	22.4%	23.0%	24.0%	24.2%
Inventory turns.......................	3.7	4.5	4.6	4.7	4.9

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

- what factors affect our business;
- what our earnings and costs were in 2003 and 2002;
- why those earnings and costs were different from the year before;
- how all of this affects our overall financial condition;
- what our expenditures for capital projects were in 2003 and what we expect them to be in 2004; and
- where funds will come from to pay for future expenditures.

As you read Management's Discussion and Analysis, please refer to our consolidated financial statements, included in Item 8 of this Form 10-K, which present the results of operations for the fiscal year ended January 31, 2004, the one-month period ended February 1, 2003, and the calendar years ended December 31, 2002 and 2001. 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 2003 compared to the comparable fiscal year 2002, the one-month period ended February 1, 2003 compared to the one-month period ended January 31, 2002 and the calendar year 2002 compared to calendar year 2001.

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 2004, we entered into a five-year $450.0 million Revolving Credit Facility. We used availability under this facility to repay the $142.6 million of variable rate debt related to our variable interest entity. This facility also replaced the $150.0 million Revolving Credit Facility.
- In January 2004, we completed construction on our Ridgefield, Washington distribution center, which is a 665,000 square foot facility that can be expanded in the future to accommodate our growth needs. We began shipping merchandise from this distribution center in February 2004.
- 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, June 29, 2003.
- In May 2003, we began construction on a new distribution center in Joliet, Illinois. The Joliet distribution center will be a fully automated 1.2 million square foot facility and will replace our existing Chicago distribution center. It is scheduled to open by mid-year 2004.
- In February 2003, we opened a new 603,000 square foot automated distribution center in Marietta, Oklahoma.
- In January 2003, we changed our fiscal year from a calendar year to a retail fiscal year ending on the Saturday closest to January 31. Our first fiscal year reported is fiscal 2003. Fiscal 2003 is the period beginning February 2, 2003 and ending January 31, 2004.

Overview

Our net sales are derived from the sale of merchandise. Two major factors tend to affect our net sales trends. First is our success at opening new stores or adding new stores through mergers or acquisitions. Second, sales vary at our existing stores from one year to the next. We refer to this change as a change in comparable store net sales, because we compare only those stores that are open throughout both of the periods being compared. We include sales from stores expanded during the year in the calculation of comparable store net sales, which has the effect of increasing our comparable store net sales. The term 'expanded' also includes stores that are relocated. In fiscal 2003, we increased our selling square footage by 27.5%. Of this 3.6 million selling square foot increase, approximately 0.9 million was added by expanding existing stores. In fiscal 2004, we plan to increase our selling square footage by approximately 20%.

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 merchandise.

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 2004 to be approximately 10,000 selling square feet per store. In fiscal 2004 and beyond, we plan to predominantly open stores that are approximately 10,000 to 15,000 selling square feet. We believe this size range 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 per store and create an improved shopping environment that invites customers to shop longer and buy more. When our larger stores become the majority of our store base, which we expect to occur by the end of 2005, we believe our net sales per square foot will begin to rise.

Our plans for fiscal 2004 operations anticipate comparable store net sales increases of slightly positive to 3%, net sales in the $3.2 to $3.3 billion range and earnings increases of at least 14%. We continue to expect annual gross margin, as a percentage of net sales, to be between 36.0% and 36.5%. We also expect to experience pressure on our gross profit margins in future years as we refine our merchandise mix to include a higher proportion of consumable merchandise, which typically carries a lower gross profit margin, open larger stores and continue to absorb higher costs.

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 price above the $1.00 price point.

We plan to continue to improve operating expenses, other than depreciation, as a percentage of net sales; however, we expect our depreciation expense to increase by more than 20 basis points in 2004 compared to 2003. As a result, we believe that maintaining our operating margin in 2004 will be a challenge. Depreciation expense is expected to increase as a result of our continued investments in opening larger stores and in technology assets, such as point-of-sale systems, particularly as we convert existing stores to point-of-sale. As these assets become fully depreciated, we expect a decrease in our depreciation expense, as a percentage of net sales, beginning in 2006.

We expect a shift in the seasonality of our earnings in 2004. Compared to 2003, we expect a smaller portion of our total annual earnings to be realized in the first quarter of 2004 while we believe a larger portion will be realized in the fourth quarter of 2004. This shift is primarily due to the nine-day shorter Easter selling season and two additional selling days between Thanksgiving and Christmas in 2004 compared to 2003.

Results of Operations

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

	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended February 1, 2003	Month Ended January 31, 2002	Year ended December 31, 2002	Year ended December 31, 2001
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales	63.8	70.9	63.8	69.3	63.6	64.0
Gross profit	36.2	29.1	36.2	30.7	36.4	36.0
Selling, general and administrative expenses	25.7	34.3	25.7	32.1	25.5	25.7
Operating income (loss)	10.5	(5.2)	10.5	(1.4)	10.9	10.3
Interest income	0.1	0.2	0.1	0.4	0.2	0.2
Interest expense	(0.3)	(0.5)	(0.2)	(0.3)	(0.2)	(0.3)
Changes in fair value of non-hedging interest rate swaps	--	0.2	--	--	(0.1)	(0.1)
Income (loss) before income taxes	10.3	(5.3)	10.4	(1.3)	10.8	10.1
Provision for income taxes	(4.0)	2.0	(4.0)	0.5	(4.2)	(3.9)
Net income (loss) before cumulative effect of a change in accounting principle	6.3	(3.3)	6.4	(0.8)	6.6	6.2
Cumulative effect of a change, in accounting principle, net of tax benefit	--	(3.3)	(0.2)	--	--	--
Net income (loss)	6.3%	(6.6)%	6.2%	(0.8)%	6.6%	6.2%

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

The following table is presented to compare statements of operations amounts for the fiscal year ended January 31, 2004 to the fiscal year ended February 1, 2003. Amounts for the fiscal year ended February 1, 2003 are not included in the Consolidated Statements of Operations on page 28.

	Year ended January 31, 2004	Year ended February 1, 2003
	(in thousands)	
Net sales	$ 2,799,872	$ 2,357,836
Cost of sales	1,787,052	1,503,612
Gross profit	1,012,820	854,224
Selling, general and administrative expenses	719,223	606,836
Operating income	293,597	247,388
Interest income	2,648	3,445
Interest expense	(8,382)	(4,812)
Changes in fair value of non-hedging interest rate swaps	889	(1,297)
Income before income taxes	288,752	244,724
Provision for income taxes	111,169	94,220
Income before cumulative effect of a change in accounting principle	177,583	150,504
Cumulative effect of a change in accounting principle, net of tax benefit	--	(5,285)
Net income	$ 177,583	$ 145,219

Net Sales. Net sales increased 18.7% in 2003 compared to 2002. We attribute this $442.0 million increase in net sales primarily to new and acquired stores in 2003 and 2002 which are not included in our comparable store net sales calculation and to a comparable store net sales increase of 2.9% in 2003. Comparable store net sales are positively affected by our expanded and relocated stores which we include in the calculation, and, to a lesser extent, are negatively affected when we open new stores or expand stores near existing stores. Our comparable store net sales increase was due to our expanded and relocated stores. Net sales in our larger, newer stores, particularly the 10,000 to 15,000 square foot stores, have been stronger than those in our smaller, older stores.

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

Fiscal years ended	**January 31, 2004**	**February 1, 2003**
New stores	183	314
Acquired stores (Greenbacks)	100	0
Expanded or relocated stores	124	110
Closed stores	(42)	(36)

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

Gross Profit. Gross profit margin was 36.2% in 2003 and 2002. An approximate 20 basis point decrease in markdowns was offset by an approximate 20 basis point increase in occupancy costs. Our improved markdowns are primarily due to better seasonal sell-through, use of point-of-sale data to better manage the buying process and better allocate merchandise across store classes through use of our supply chain systems. Our increase in occupancy costs was primarily attributed to the loss of leverage as a result of two fewer selling days in 2003 compared to 2002 and increased occupancy rates in our smaller stores which generally experience lower comparable store net sales. In addition, during 2003, gross profit margin was affected by approximately $3.8 million of additional non-cash depreciation expense in cost of sales associated with the adoption of FASB Interpretation 46 *Consolidation of Variable Interest Entities*. By adopting FIN 46, four of our distribution centers, previously accounted for as operating leases, were consolidated in our financial statements effective January 1, 2003.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, as a percentage of net sales, remained unchanged at 25.7% in 2003. Increased depreciation expense of approximately 50 basis points was primarily offset by a decrease of approximately 40 basis points in payroll-related and store operating expenses. The increase in depreciation expense was associated with our larger new and expanded stores and the continued installation of our point-of-sale systems and other technology assets. Continued improvements in store-level labor productivity and store supply expenses were the primary drivers to our lower payroll-related and store operating expenses, as a percentage of net sales.

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

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

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

Month Ended February 1, 2003 Compared to Month Ended January 31, 2002

The following table is presented to compare statements of operations amounts for the fiscal month ended February 1, 2003 to the fiscal month ended January 31, 2002. Amounts for the fiscal month ended January 31, 2002 are not included in the Consolidated Statements of Operations on page 28.

	Month ended	
	February 1, 2003	**January 31, 2002**
	(in thousands)	
Net sales	$ 160,789	$ 132,141
Cost of sales	113,980	91,600
Gross profit	46,809	40,541
Selling, general and administrative expenses	55,237	42,436
Operating loss	(8,428)	(1,895)
Interest income	389	470
Interest expense	(719)	(427)
Changes in fair value of non-hedging interest rate swaps	239	68
Loss before income taxes	(8,519)	(1,784)
Provision for income taxes	(3,279)	(687)
Loss before cumulative effect of a change in accounting principle	(5,240)	(1,097)
Cumulative effect of a change in accounting principle, net of tax benefit	(5,285)	--
Net loss	$ (10,525)	$ (1,097)

Net Sales. Net sales for the month ended February 1, 2003 increased 21.7% compared to the month ended January 31, 2002. This increase was primarily due to increased sales in our new and expanded stores and one additional selling day in the month ended February 1, 2003 compared to the month ended January 31, 2002. These increases were slightly offset by a 5.1% decrease in comparable store net sales.

Gross Profit. Gross profit margin decreased 160 basis points in the month ended February 1, 2003 compared to the month ended January 31, 2002, primarily due to a change in our merchandise mix toward lower margin merchandise.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, as a percentage of net sales, increased 2.3% primarily as a result of a 100 basis point increase in payroll-related costs and a 40 basis point increase in depreciation costs.

Cumulative Effect of a Change in Accounting Principle. The cumulative effect of a change in accounting principle represents, net of tax, the effect of consolidation of our variable interest entity in accordance with the implementation of FIN 46 effective January 1, 2003. The variable interest entity holds the assets and related debt of four of our distribution centers.

Calendar Year 2002 Compared to Calendar Year 2001

Net Sales. Net sales increased 17.2% in 2002 compared to 2001. We attribute this $341.9 million increase in net sales primarily to our new stores opened in 2002 and 2001 which are not included in our comparable store net sales increase, and to a comparable store net sales increase of 1.0% in 2002. 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.

We opened 318 new stores and closed 30 stores during 2002, compared to 276 new stores opened and 30 stores closed in 2001. During 2002, we opened larger stores than originally planned, which required us to shift our store openings to later in the third quarter and shift some store openings into the fourth quarter. We added 28.8% to our selling square footage in 2002 compared to 29.6% in 2001. Of the 2.9 million in selling square footage increase in 2002, approximately 0.5 million selling square feet was added by expanding 111 existing stores.

Gross Profit. Gross profit margin increased to 36.4% in 2002 compared to 36.0% in 2001. This increase in gross profit margin in 2002 was primarily due to a 50 basis point improvement in inventory shrink. This improvement is primarily attributed to lower shrink in our Dollar Express stores and our Philadelphia distribution network and adjustments to our distribution center shrink in connection with our supply chain management system implementation. In addition, merchandise costs increased 50 basis points, but this increase was offset by a 50 basis point improvement in freight costs. The increase in our merchandise costs resulted from a change in our merchandise mix toward lower margin merchandise as we increased the sales of these items in our newer, larger stores. Negotiation of favorable import and domestic freight rates coupled with better management of routing of our merchandise shipments during 2002 compared to 2001 led to the improvements in our freight costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased as a percentage of net sales to 25.5% compared to 25.7% in 2001. This decrease is primarily the result of savings achieved from our implementation of various expense-management initiatives, particularly with regard to payroll-related expenses, partially offset by an increase in depreciation and amortization expense. Our payroll-related expenses decreased 60 basis points in 2002 compared to 2001, while our depreciation and amortization increased 30 basis points for the same period. The increase in depreciation expense resulted primarily from increased depreciation costs associated with our square footage growth and increased depreciation costs resulting from the continued rollout of our point-of-sale systems. In addition, effective January 1, 2002, we ceased amortization of goodwill in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142 *Goodwill and Other Intangible Assets*. We recorded approximately $2.0 million of goodwill amortization in 2001.

Operating Income. Due to the reasons discussed above, operating income increased to $253.9 million in 2002 from $203.9 million in 2001 and increased as a percentage of net sales to 10.9% from 10.3%.

Interest Income and Expense. Interest income in 2002 was consistent with 2001. Decreased interest rates throughout 2002 were offset by increased levels of cash and cash equivalents. Interest expense decreased $0.9 million in 2002 compared to 2001 due to repayments of our long-term debt and a decrease in interest on our capitalized leases. We benefited slightly from the decrease in variable interest rates in 2002; however, this benefit was partially offset as a result of the interest rate swaps in effect during 2002.

Income Taxes. Our effective tax rate was 38.5% in 2002 and 2001.

Liquidity and Capital Resources

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

The following table compares cash-related information for the years ended January 31, 2004, December 31, 2002 and 2001:

	Year Ended January 31, 2004	Year Ended December 31, 2002	Year Ended December 31, 2001
	(in millions)		
Net cash provided by (used in):			
Operating activities	$ 234.3	$ 206.9	$ 178.7
Investing activities	(267.4)	(173.8)	(121.5)
Financing activities	(35.5)	22.5	(1.8)

The $27.4 million increase in cash provided by operating activities in 2003 was due primarily to increased profitability before non-cash depreciation and amortization expense. Non-cash depreciation expense was primarily attributed to our square footage growth in 2003 and our continued installation of our point-of-sale systems and other technology assets. These increases were partially offset by the timing and volume of domestic merchandise receipts in January 2004 compared to December 2002. Our outstanding payable days were approximately 30 days in both periods.

Cash used in investing activities is generally expended to open new stores and to expand or relocate existing stores. The $93.6 million increase in 2003 compared to 2002 was primarily due to the following:

- we acquired Greenbacks for approximately $100 million;
- we internally financed the construction of our distribution centers in 2003; and

- we increased the number of point-of-sale installations as well as invested in additional technology assets.

These increases were partially offset by $63.5 million in proceeds from net sales of our short-term investments.

The $58.0 million increase in cash used in financing activities in fiscal year 2003 compared with calendar year 2002 was primarily the result of the following:

- We paid approximately $38.0 million in the fourth quarter of 2003 to repurchase shares under a $200 million authorization granted by our Board of Directors in November 2002.

- We received $10.3 million less cash pursuant to stock-based compensation plans in 2003 compared to 2002 because of a decrease in the amount of stock option exercises, which we believe resulted from the decreased stock price in 2003 compared to 2002.

At January 31, 2004, our long-term borrowings were $167.6 million and our capital lease commitments were $20.3 million. We had $150.0 million available through a revolving credit facility. We also have a $125.0 million Letter of Credit Reimbursement and Security Agreement, under which approximately $67.0 million was committed to letters of credit issued for routine purchases of imported merchandise.

In March 2004, we entered into a five-year $450.0 million Revolving Credit Facility. This facility bears interest at LIBOR, plus 0.475% spread. We used availability under this facility to repay $142.6 million of variable rate debt related to our variable interest entity and to invest in certain money market securities. As of April 1, 2004, we had $200.0 million available under this facility. This facility replaced the $150.0 million Revolving Credit Facility.

Funding Requirements

Overview

In 2003, the average investment per new store, including capital expenditures, initial inventory and pre-opening costs, was approximately $442,000. We expect our cash needs for opening new stores and expanding existing stores in fiscal 2004 to total approximately $178.0 million, which includes approximately $129.5 million for capital expenditures and $48.5 million for initial inventory and pre-opening costs. Our total planned capital expenditures for fiscal 2004 are approximately $199.0 million, including planned expenditures for new and expanded stores, new and relocated distribution centers 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, including the new facility entered into in March 2004. We believe that we will be able to obtain adequate funding to construct our new distribution centers.

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

Contractual Obligations	Total	2004	2005	2006	2007	2008	Thereafter
Lease Financing							
Operating lease obligations	$801.0	$186.9	$169.7	$138.7	$107.1	$71.5	$127.1
Capital lease obligations (primarily sale-leaseback)	20.3	6.8	8.0	5.3	0.1	0.1	--
Long-term Borrowings							
Variable interest entity	142.6	--	--	142.6	--	--	--
Long-term debt(including current portion)	25.0	25.0	--	--	--	--	--
Total obligations	$988.9	$218.7	$177.7	$286.6	$107.2	$71.6	$127.1

Commitments	Total	Expiring in 2004	Expiring in 2005	Expiring in 2006	Expiring in 2007	Expiring in 2008	Thereafter
Unsecured revolving credit facility	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Letters of credit and bonds	114.6	114.6	--	--	--	--	--
Freight contracts	29.7	3.7	7.2	18.8	--	--	--
Technology assets	24.1	24.1	--	--	--	--	--
Total commitments	$168.4	$142.4	$ 7.2	$ 18.8	$ --	$ --	$ --

Lease Financing

Operating Lease Obligations. Amounts presented are as of December 31, 2003 for leases signed prior to that date. In addition, amounts presented have been updated for new leases entered into during the month of January 2004. Our operating lease obligations are primarily for payments under noncancelable store leases. The commitment includes amounts for leases that were signed prior to January 31, 2004 for stores that were not yet open on January 31, 2004.

Capital Lease Obligations (primarily sale-leaseback). In September 1999, we sold certain retail store leasehold improvements to an unrelated third party and leased them back for seven years. We have an option to repurchase the leasehold improvements in September 2004 and September 2006 at amounts approximating their fair market values at the time the option is exercised. The transaction is treated as a financing arrangement for financial accounting purposes. The total amount of the lease obligation is $23.4 million. We are required to make monthly lease payments of $438,000 in the first five years and $638,000 in the sixth and seventh years. As a result of the transaction, we received net cash of $20.9 million and an $8.1 million 11.0% note receivable, which matures in September 2006. The amount of the repurchase option under the lease will equal the amount outstanding under the note receivable in September 2006.

Long-Term Borrowings

Variable Interest Entity. In March 2001, we entered into an operating lease, known as a synthetic lease, to finance the construction of several of our distribution centers. At December 31, 2002, approximately $154.5 million of the $165.0 million facility was committed to the Stockton, Savannah, Briar Creek and Marietta facilities. Because we accounted for this transaction as an operating lease prior to January 1, 2003, the related fixed assets and lease liabilities were not included in our balance sheets and payments under the lease were included in rent expense prior to this date.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46. After evaluating this new standard, our Board of Directors and management determined that we would maintain the existing terms of the facility and include the variable interest entity in our consolidated financial statements effective January 1, 2003. As a result of the implementation, the distribution center assets, the financing-related costs and the debt incurred by the variable interest entity to purchase and construct the assets are included on our balance sheets for periods after January 1, 2003. Interest is payable monthly and the principal amount is payable upon maturity of the debt in March 2006. The debt, 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.

In March 2004, we repaid this debt with borrowings from the $450.0 million Revolving Credit Facility.

For more information on the variable interest entity, see Notes 6 and 14 of the Consolidated Financial Statements in Item 8 of this Form 10-K.

Revenue Bond Financing. In May 1998, we entered into an agreement with the Mississippi Business Finance Corporation under which it issued $19.0 million of variable-rate demand revenue bonds. We borrowed the proceeds from the bonds to finance the acquisition, construction and installation of land, buildings, machinery and equipment for our distribution facility in Olive Branch, Mississippi. At January 31, 2004, the balance outstanding on the bonds was $19.0 million. We begin repayment of the principal amount of the bonds in June 2006, with a portion maturing each June 1 until the final portion matures in June 2018. The bonds do not have a prepayment penalty as long as the interest rate remains variable. The bonds contain a demand provision and, therefore, outstanding amounts are classified as current liabilities. We pay interest monthly based on a variable interest rate, which was 1.12% at January 31, 2004. The bonds are secured by a $19.3 million letter of credit issued by one of our existing lending banks. The letter of credit is renewable annually. The letter of credit and reimbursement agreement requires that we maintain specified financial ratios and restricts our ability to pay cash dividends.

Debt Securities. In April 1997, we issued $30.0 million of 7.29% unsecured senior notes, proceeds from which indirectly financed a portion of our Chesapeake distribution center and corporate headquarters. We pay interest on the notes semiannually on April 30 and October 30 each year and we have been paying principal in equal annual installments of $6.0 million since April 30, 2000. We will make the final payment on April 30, 2004. The note holders have the right to require us to prepay the notes in full without premium upon a change of control or upon specified asset dispositions or other transactions we may make. The note agreements prohibit specified mergers and consolidations in which our company is not the surviving company, require that we maintain specified financial ratios, require that the notes rank on par with other debt and limit the amount of debt we can incur. In the event of default or a prepayment at our option, we must pay a penalty to the note holder.

Commitments

Unsecured Revolving Credit Facility. Effective May 30, 2003, we entered into a $150.0 million revolving credit facility. This facility bears interest at LIBOR, plus a spread. The revolving credit facility, among other things, requires the maintenance of certain distributions and prohibits the incurrence of certain new indebtedness. There was no amount outstanding on this facility at January 31, 2004.

See a discussion of our new $450.0 million credit facility entered into in March 2004 in "Liquidity and Capital Resources" on page 18.

Letters of Credit and Bonds. Effective March 12, 2001, we entered into a Letter of Credit Reimbursement and Security Agreement, which provides $125.0 million for letters of credit, which are generally issued for the routine purchase of imported merchandise. Approximately $67.0 million was committed to letters of credit at January 31, 2004. We also have letters of credit or surety bonds outstanding for our revenue bond financing, our high-deductible insurance program and utility payments at our stores.

Freight Contracts. We have contracted outbound freight services from various carriers with contracts expiring through January 2007. The total amount of these commitments is approximately $29.7 million.

Technology Assets. We have commitments totaling approximately $24.1 million to purchase store technology assets for our stores during 2004.

Derivative Financial Instruments

We are party to four 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 variable rate, variable interest entity debt. The swaps are based on notional amounts of $19.0 million, $10.0 million, $5.0 million and $25.0 million. Under the $19.0 million, $10.0 million and $5.0 million agreements, as amended, we pay interest to the banks that provided the swaps at a fixed rate. In exchange, the financial institution pays us at variable-interest rates, which are similar to the rates on the demand revenue bonds and our variable-rate operating leases. The variable-interest rates on the interest rate swaps are set monthly. No payments are made by either party under the swaps for monthly periods with an established interest rate greater than a predetermined rate (the knock-out rate). The swaps may be canceled by the bank or us and settled for the fair value of the swap as determined by market rates.

The $25.0 million interest rate swap agreement is used to manage the risk associated with interest rate fluctuations on a portion of our variable interest entity debt. 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, $10.0 million and $5.0 million interest rate swaps, changes in the fair value of those swaps 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.

In March 2004, we repaid the variable interest entity debt with borrowings from our $450.0 million Revolving Credit Facility. The $25.0 million, $10.0 million and $5.0 million interest rate swaps designated to the variable interest rate debt were redesignated to our borrowings under the $450.0 million Revolving Credit Facility. This redesignation does not effect the accounting method used for the individual interest rate swaps.

For more information on the interest rate swaps, see "Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk" on page 24.

Critical Accounting Policies

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

Inventory Valuation

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

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

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

Our accrual for shrink is based on the actual historical shrink results of our most recent physical inventories adjusted, if necessary, for current economic conditions. These estimates are compared to actual results as physical inventory counts are taken and reconciled to the general ledger. The majority of our counts are taken between January and May of each year; therefore, the shrink accrual recorded at January 31, 2004 is based on estimated shrink for most of 2003, including the fourth quarter. We have not experienced significant fluctuations in historical shrink rates in our Dollar Tree stores. However, we have sometimes experienced higher than typical shrink in acquired stores in the year following an acquisition, as was experienced in the former Dollar Express distribution facilities and stores in 2001. We periodically adjust our shrink estimates to address these factors as they become apparent.

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

Accrued Expenses

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

Income Taxes

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

Seasonality and Quarterly Fluctuations

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

- shifts in the timing of certain holidays, especially Easter;
- the timing of new store openings;
- the net sales contributed by new stores;
- changes in our merchandise mix; and
- competition.

Our highest sales periods are the Christmas and Easter seasons. Easter was observed on March 31, 2002, April 20, 2003 and will be observed on April 11, 2004. We generally realize a disproportionate amount of our net sales and a substantial majority of our operating and net income during the fourth quarter. In anticipation of increased sales activity during these months, we purchase substantial amounts of inventory and hire a significant number of temporary employees to supplement our permanent 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.

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

Inflation and Other Economic Factors

Our ability to provide quality merchandise at a fixed price and on a profitable basis may be subject to economic factors and influences that we cannot control. 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 much 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. Consumer spending could also decline because of economic pressures.

Shipping Costs. In the past, we have experienced annual increases of as much as 33% in our trans-Pacific shipping rates due primarily to rate increases imposed by the trans-Pacific shipping cartel. Currently, trans-Pacific shipping rates are negotiated with individual freight lines and are subject to fluctuation based on supply and demand for containers and current fuel costs. As a result, our trans-Pacific shipping costs in fiscal 2004 may increase by $5.0 million or more compared with fiscal 2003 when we renegotiate our import shipping rates effective May 2004. We can give no assurances as to the amount of the increase, as we are in the early stages of our negotiations.

Because of rising fuel costs in 2004, we could experience increases in mileage costs as charged by our domestic contract carriers compared with past years. However, we do not expect these increases, if any, to have a material effect on our results of operations, in part, because the opening of two new distribution centers in 2004 is expected to reduce the average distance between our distribution centers and the stores that they service.

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

Leases for Replaced Distribution Centers. We are liable for rent and pass-through costs under a lease for a now-closed distribution center whose lease expires in September 2005. We have recorded charges for these future obligations considering current market conditions and probable sublease income and do not anticipate recording additional charges under this lease. The lease on our Chicago distribution center expires in June 2005. We are making an effort to find a tenant to sublease the facility when we vacate it later this year to move to our new facility in Joliet; however, if we are unable to locate a suitable tenant, we would have to record a charge for our future obligations under this lease of approximately $1.0 million.

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

Potential Future Accounting Pronouncements

In March 2004, the Financial Accounting Standards Board issued an exposure draft addressing the accounting for stock-based compensation. A final standard is expected by the end of 2004. Proposed changes to the existing rules require companies to recognize compensation expense for stock option grants. When the new rules are enacted, we expect our results of operations to be materially adversely affected; however, our cash flow and the underlying economics of our financial condition are not expected to be materially affected. We will continue to monitor the development of the new standard and review our stock-based compensation plans accordingly.

Item 7A. 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 have financial instruments that are subject to interest rate risk, consisting of debt and lease obligations issued at variable and fixed rates. Based on amounts outstanding on our fixed rate debt obligations at January 31, 2004, we do not consider our exposure to interest rate risk to be material.

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, $10.0 million and $5.0 million interest rate swaps, no payments are made by parties under the swaps 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 31, 2004:

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	($1.7 million)
$10.0 million interest rate swap	LIBOR	6.45%	7.41%	6/2/04	($0.2 million)
$5.0 million interest rate swap	LIBOR	5.83%	7.41%	6/2/04	($0.1 million)
$25.0 million interest rate swap	LIBOR	5.43%	N/A	3/12/06	($1.8 million)

Hypothetically, a 1% change in interest rates results in approximately a $0.6 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.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheets of Dollar Tree Stores, Inc. and subsidiaries (the Company) as of January 31, 2004, February 1, 2003 and December 31, 2002, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the year ended January 31, 2004, the one-month period ended February 1, 2003 and for each of the years in the two-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Dollar Tree Stores, Inc. and subsidiaries as of January 31, 2004, February 1, 2003 and December 31, 2002, and the results of their operations and their cash flows for the year ended January 31, 2004, the one-month period ended February 1, 2003 and for each of the years in the two-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Effective January 1, 2002, the Company implemented Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, as well as Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, as described in Note 1.

Effective January 1, 2003, the Company implemented the provisions of Financial Accounting Standards Board Interpretation 46, *Consolidation of Variable Interest Entities*, as described in Note 6.

/s/ KPMG LLP

Norfolk, Virginia
February 23, 2004

DOLLAR TREE STORES, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	January 31, 2004	February 1, 2003	December 31, 2002
	(In thousands, except share data)		
ASSETS			
Current assets:			
Cash and cash equivalents	$ 168,685	$ 237,302	$ 292,192
Short-term investments	--	63,525	43,780
Merchandise inventories	525,643	438,439	357,665
Deferred tax asset (Note 4)	11,716	14,333	10,409
Prepaid expenses and other current assets	16,525	15,783	12,094
Total current assets	722,569	769,382	716,140
Property and equipment, net (Notes 5, 6, 7 and 8)	613,214	477,947	344,322
Intangibles, net (Notes 2 and 7)	123,738	41,351	41,418
Other assets, net (Notes 3 and 6)	20,785	15,559	14,497
TOTAL ASSETS	$1,480,306	$1,304,239	$ 1,116,377
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt (Note 8)	$ 25,000	$ 25,000	$ 25,000
Current installments of obligations under capital leases (Note 7)	5,324	5,811	5,782
Accounts payable	114,972	137,668	59,451
Other current liabilities (Note 7)	82,771	75,033	88,237
Income taxes payable	37,035	23,548	28,041
Total current liabilities	265,102	267,060	206,511
Long-term debt, excluding current portion (Notes 6 and 8)	142,568	146,628	6,000
Obligations under capital leases, excluding current installments (Note 7)	12,259	17,283	17,647
Deferred tax liability (Note 4)	29,717	11,685	9,899
Other liabilities (Notes 9 and 11)	16,138	15,764	20,916
Total liabilities	465,784	458,420	260,973
Shareholders' equity (Notes 9, 10 and 12):			
Common stock, par value $0.01. 300,000,000 shares authorized, 114,083,768 shares issued and outstanding at January 31, 2004; 114,231,314 shares issued and outstanding at February 1, 2003; and 114,186,569 shares issued and outstanding at December 31, 2002	1,141	1,142	1,142
Additional paid-in capital	208,870	218,106	217,267
Accumulated other comprehensive loss	(970)	(1,277)	(1,373)
Unearned compensation	(62)	(112)	(117)
Retained earnings	805,543	627,960	638,485
Total shareholders' equity	1,014,522	845,819	855,404
Commitments and contingencies (Notes 5, 6, 8, 9, 11 and 12)	--	--	--
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,480,306	$1,304,239	$1,116,377

See accompanying Notes to Consolidated Financial Statements.

DOLLAR TREE STORES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
	(In thousands, except per share data)			
Net sales	$2,799,872	$ 160,789	$2,329,188	$1,987,271
Cost of sales (Note 6)	1,787,052	113,980	1,481,232	1,271,314
Gross profit	1,012,820	46,809	847,956	715,957
Selling, general and administrative expenses (Notes 6 and 11)	719,223	55,237	594,035	512,092
Operating income (loss)	293,597	(8,428)	253,921	203,865
Interest income	2,648	389	3,526	3,573
Interest expense	(8,382)	(719)	(4,519)	(5,464)
Changes in fair value of non-hedging interest rate swaps (Note 9)	889	239	(1,469)	(1,723)
Income (loss) before income taxes	288,752	(8,519)	251,459	200,251
Provision for income taxes (Note 4)	111,169	(3,279)	96,812	77,170
Income (loss) before cumulative effect of a change in accounting principle	177,583	(5,240)	154,647	123,081
Cumulative effect of a change in accounting principle, net of tax benefit of $3,309 (Note 6)	--	(5,285)	--	--
Net income (loss)	$ 177,583	$ (10,525)	$ 154,647	$ 123,081
Basic net income (loss) per share (Note 10):				
Income (loss) before cumulative effect of a change in accounting principle	$ 1.55	$ (0.05)	$ 1.36	$ 1.10
Cumulative effect of a change in accounting principle	--	(0.04)	--	--
Net income (loss)	$ 1.55	$ (0.09)	$ 1.36	$ 1.10
Diluted net income (loss) per share (Note 10):				
Income (loss) before cumulative effect of a change in accounting principle	$ 1.54	$ (0.05)	$ 1.35	$ 1.09
Cumulative effect of a change in accounting principle	--	(0.04)	--	--
Net income (loss)	$ 1.54	$ (0.09)	$ 1.35	$ 1.09

See accompanying Notes to Consolidated Financial Statements.

DOLLAR TREE STORES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
Year Ended January 31, 2004,
Month Ended February 1, 2003 and Years Ended December 31, 2002 and 2001

(In thousands)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Unearned Compensation	Retained Earnings	Share-holders' Equity
Balance at December 31, 2000	112,046	$ 1,121	$ 156,780	$ --	$ --	$ 360,757	$ 518,658
Net income for the year ended December 31, 2001	--	--	--	--	--	123,081	123,081
Other comprehensive loss (Note 10)	--	--	--	(378)	--	--	(378)
Total comprehensive income						--	122,703
Issuance of stock under Employee Stock Purchase Plan and other plans (Note 12)	91	--	1,555	--	--	--	1,555
Exercise of stock options, including income tax benefit of $2,345 (Note 12)	594	6	12,589	--	--	--	12,595
Repurchase and retirement of shares (Note 10)	(225)	(2)	(3,773)	--	--	--	(3,775)
Balance at December 31, 2001	112,506	1,125	167,151	(378)	--	483,838	651,736
Net income for the year ended December 31, 2002	--	--	--	--	--	154,647	154,647
Other comprehensive loss (Note 10)	--	--	--	(995)	--	--	(995)
Total comprehensive income							153,652
Issuance of stock under Employee Stock Purchase Plan and other plans (Note 12)	96	1	2,038	--	--	--	2,039
Exercise of stock options, including income tax benefit of $10,696 (Note 12)	1,633	16	41,117	--	--	--	41,133
Restricted stock issuance and amortization (Note 10)	9	--	275	--	(117)	--	158
Settlement of merger-related contingencies	(57)	--	6,686	--	--	--	6,686
Balance at December 31, 2002	114,187	1,142	217,267	(1,373)	(117)	638,485	855,404
Net loss for the month ended February 1, 2003	--	--	--	--	--	(10,525)	(10,525)
Other comprehensive income (Note 10)	--	--	--	96	--	--	96
Total comprehensive loss							(10,429)
Issuance of stock under Employee Stock Purchase Plan and other plans (Note 12)	32	--	614	--	--	--	614
Exercise of stock options, including income tax benefit of $65 (Note 12)	12	--	225	--	--	--	225
Restricted stock amortization (Note 10)	--	--	--	--	5	--	5
Balance at February 1, 2003	114,231	1,142	218,106	(1,277)	(112)	627,960	845,819
Net income for the year ended January 31, 2004	--	--	--	--	--	177,583	177,583
Other comprehensive income (Note 10)	--	--	--	307	--	--	307
Total comprehensive income							177,890
Issuance of stock under Employee Stock Purchase Plan and other plans (Note 12)	132	1	2,724	--	--	--	2,725
Exercise of stock options, including income tax benefit of $5,620 (Note 12)	994	10	25,060	--	--	--	25,070
Settlement of merger-related contingencies	(8)	--	1,021	--	--	--	1,021
Repurchase and retirement of shares (Note 10)	(1,265)	(12)	(38,041)	--	--	--	(38,053)
Restricted stock amortization (Note 10)	--	--	--	--	50	--	50
Balance at January 31, 2004	114,084	$ 1,141	$ 208,870	$ (970)	$ (62)	$ 805,543	$ 1,014,522

See accompanying Notes to Consolidated Financial Statements.

DOLLAR TREE STORES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002	2001
	(In thousands)			
Cash flows from operating activities				
Net income (loss)	$ 177,583	$ (10,525)	$ 154,647	$ 123,081
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	101,495	7,217	71,615	53,763
Loss on disposal of property and equipment	4,015	107	1,599	1,726
Cumulative effect of a change in accounting principle	--	5,285	--	--
Change in fair value of non-hedging interest rate swaps	(889)	(239)	1,469	1,723
Provision for deferred income taxes	21,059	1,111	16,439	(6,219)
Tax benefit of stock option exercises	5,620	65	10,696	2,345
Other non-cash adjustments to net income	587	58	313	1,318
Changes in assets and liabilities increasing (decreasing) cash and cash equivalents:				
Merchandise inventories	(61,166)	(80,774)	(61,192)	(37,786)
Prepaid expenses and other current assets	(428)	(3,689)	6,707	10,594
Other assets	(1,424)	(679)	(999)	(936)
Accounts payable	(29,135)	78,217	1,361	(17,314)
Income taxes payable	16,910	(4,493)	(10,807)	15,400
Other current liabilities	803	(12,505)	13,018	28,313
Other liabilities	(745)	(3,185)	2,011	2,718
Net cash provided by (used in) operating activities	234,285	(24,029)	206,877	178,726
Cash flows from investing activities:				
Acquisition of favorable lease rights	(105)	--	(813)	--
Capital expenditures	(227,316)	(11,555)	(136,127)	(121,566)
Purchase of Greenbacks, Inc., net of cash acquired of $1,248	(100,523)	--	--	--
Investment in Ollie's Holdings, Inc.	(4,000)	--	--	--
Proceeds from sale of property and equipment	35	--	216	98
Purchase of short-term investments	(30,360)	(21,745)	(60,280)	--
Proceeds from sales of short-term investments	93,885	2,000	16,500	--
Settlement of merger-related contingencies	1,021	--	6,686	--
Net cash used in investing activities	(267,363)	(31,300)	(173,818)	(121,468)
Cash flows from financing activities:				
Proceeds from revolving credit facilities	39,700	--	--	82,000
Repayment of revolving credit facilities	(39,700)	--	--	(82,000)
Repayment of long-term debt and facility fees	(11,667)	--	(6,025)	(6,239)
Principal payments under capital lease obligations	(7,994)	(335)	(3,971)	(3,562)
Proceeds from stock issued pursuant to stock-based compensation plans	22,175	774	32,476	11,805
Repurchase of common stock (Note 10)	(38,053)	--	--	(3,775)
Net cash provided by (used in) financing activities	(35,539)	439	22,480	(1,771)
Net increase (decrease) in cash and cash equivalents	(68,617)	(54,890)	55,539	55,487
Cash and cash equivalents at beginning of period	237,302	292,192	236,653	181,166
Cash and cash equivalents at end of period	$ 168,685	$ 237,302	$ 292,192	$ 236,653
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$ 7,252	$ 195	$ 3,685	$ 5,144
Income taxes	$ 70,172	$ 110	$ 82,420	$ 65,688

(continued on following page)

DOLLAR TREE STORES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(continued from previous page)

Supplemental disclosure of non-cash investing and financing activities:

The Company purchased equipment under capital lease obligations amounting to $2,134, $2,177 and $222 in the years ended January 31, 2004, December 31, 2002 and 2001, respectively. The Company did not purchase any equipment under capital leases in the month ended February 1, 2003.

As described in Note 2, the Company acquired Greenbacks, Inc. In conjunction with the acquisition, the Company assumed liabilities of $5,187.

As described in Note 6, the Company consolidated its variable interest entity effective January 1, 2003. As a result, the Company recorded the following on January 1, 2003: an increase of $128,791 in net property and equipment; an increase of $970 for deferred financing costs in other assets and an increase of $140,628 in long-term debt. In addition, the cumulative effect of a change in accounting principle represents, net of the tax effect of $3,309, the catch-up of depreciation related to the distribution center assets and the catch-up of the amortization of the deferred financing costs offset by the write-off of the straight-lined rent liability.

See accompanying Notes to Consolidated Financial Statements.

DOLLAR TREE STORES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

At January 31, 2004, Dollar Tree Stores, Inc. (DTS or the Company) owns and operates 2,513 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, Greenbacks, Dollar Express, Dollar Bills, Only One Dollar, and Only $One. Our stores average approximately 6,716 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 and Utah. In February 2004, the Company commenced operations of a distribution center in Washington. The Company's stores are located in 47 of the 48 contiguous states. The Company's merchandise includes candy and food, housewares, health and beauty care, seasonal goods, party goods, toys, stationery, gifts and other consumer items. Approximately 40% of the Company's merchandise is directly 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. Effective January 1, 2003, the consolidated financial statements also include the financial statements of a variable interest entity that owns four of the Company's distribution centers (see Note 6). All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

The Company's fiscal years were calendar years in 2002 and 2001. The Company changed its fiscal year end from December 31 to the Saturday closest to January 31, effective for the fiscal year beginning February 2, 2003 and ending January 31, 2004. The one-month period of January 1, 2003 through February 1, 2003 (the "Transition Period") is presented separately in these consolidated financial statements. Unless specifically indicated otherwise, any reference herein to "2003" or "Fiscal 2003" relates to as of or for the year ended January 31, 2004. Any references to "2002" and "2001" or "Fiscal 2002" and "Fiscal 2001" relate to as of or for the years ended December 31, 2002 and 2001, 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 2002 and 2001 amounts have been reclassified for comparability with the current period presentation.

Cash and Cash Equivalents

Cash and cash equivalents at January 31, 2004, February 1, 2003 and December 31, 2002 includes $138,576, $211,525 and $277,170, 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 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 commercial paper with remaining maturities of more than 90 days at the time of purchase. These investments are classified as held-to-maturity and carried at amortized cost, which approximates fair value.

Merchandise Inventories

In 2001, merchandise inventories at the distribution centers are stated at the lower of cost or market, determined on a first-in, first-out (FIFO) basis. Cost is assigned to store inventories using the retail inventory method, determined on a FIFO basis. During the second quarter of calendar year 2002, the Company changed its method of accounting for its merchandise inventories from the FIFO method to the weighted-average cost method following the implementation of its new inventory management system. The Company believes this change is preferable because it more accurately measures the cost of the Company's merchandise inventories and more accurately matches revenues and costs. The Company's store inventory turns four to five times per year and is, therefore, comprised of products with older and newer costs. Because the Company purchases merchandise throughout the year to maintain high in-stock levels, the weighted-average cost method is more representative of the cost of the products the Company sells than is FIFO. In accordance with generally accepted accounting principles, the Company implemented this change retroactively to January 1, 2002. The cumulative effect of the accounting change at January 1, 2002 was not material. In addition, there was no material impact to the first and second calendar quarter 2002 financial statements as a result of this change in accounting principle. Additional pro forma disclosures of the impact of the change on prior periods as required under Accounting Principles Board Opinion No. 20, "Accounting Changes," are not provided since weighted-average cost information was not available from the prior inventory management system; however, the Company does not believe the effect would have been material.

Costs directly associated with warehousing and distribution are capitalized as merchandise inventories. Total warehousing and distribution costs capitalized into inventory amounted to $24,510, $19,990, and $16,674 at January 31, 2004, February 1, 2003 and December 31, 2002, respectively.

Property and Equipment

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

Buildings..................................	39 years
Furniture, fixtures and equipment..........	3 to 10 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 terms of the related leases, whichever is shorter. If title to the related asset passes to the Company at the end of the lease term, the asset is amortized over its estimated useful life, even if the lease term is shorter. The amortization is included in "selling, general and administrative expenses" on the accompanying consolidated statements of operations.

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

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

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 144 also changes the criteria for classifying an asset as held for sale and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The adoption of SFAS No. 144 did not have a material effect on the Company's consolidated financial statements.

The Company reviews its long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured 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 2003 and 2001, the Company recorded charges of $234 and $1,400, respectively, to write-down certain assets. No charges were recorded in the month ended February 1, 2003 or the year ended December 31, 2002. These charges are recorded as a component of "selling, general and administrative expenses" in the accompanying consolidated statements of operations.

Prior to the adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes accounting and reporting standards for intangible assets and goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but rather tested for impairment at least annually. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144. The Company performed the required transition impairment tests of goodwill and other intangibles as of January 1, 2002, and determined that no impairment existed. In addition, the Company performs its annual assessment of impairment each November.

Prior to January 1, 2002, goodwill was amortized on a straight-line basis over the expected periods to be benefited, generally 20 to 25 years.

Financial Instruments

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

Prior to the implementation of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," the fair value of the interest rate swaps was not recorded in the Company's balance sheet because they met the requirements for hedge accounting treatment prior to the implementation of SFAS No. 133.

Effective January 1, 2001, the Company adopted SFAS No. 133. This statement, as amended by SFAS No. 138, establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities. Three of the Company's interest rate swaps do not qualify for hedge accounting treatment pursuant to the provisions of SFAS No. 133. As a result, the interest rate swaps are recorded at their fair values in the consolidated balance sheets as a component of "other liabilities" (see Note 9). Changes in the fair value of the interest rate swaps are recorded as "change in the fair value of non-hedging interest rate swaps" in the statements of cash flows and the consolidated statements of operations. Upon termination of these non-hedging interest rate swaps, the remaining asset or liability, if any, will be removed from the accompanying consolidated balance sheets.

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

Revenue Recognition

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

Cost of Sales

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

Pre-Opening Costs

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

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising costs approximated $5,181 in the year ended January 31, 2004 and $789 in the month ended February 1, 2003. The Company did not incur significant advertising costs in the years ended December 31, 2002 and 2001.

Income Taxes

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

Stock-Based Compensation

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

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

	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Net income (loss)				
As reported	$ 177,583	$ (10,525)	$ 154,647	$ 123,081
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	$ 13,181	$ 1,108	$ 12,625	$ 11,417
Net income (loss) for SFAS No. 123	$ 164,402	$ (11,633)	$ 142,022	$ 111,664
Net income (loss) per share:				
Basic, as reported	$ 1.55	$ (0.09)	$ 1.36	$ 1.10
Basic, pro forma for SFAS No. 123	$ 1.43	$ (0.10)	$ 1.25	$ 0.99
Diluted, as reported	$ 1.54	$ (0.09)	$ 1.35	$ 1.09
Diluted, pro forma for SFAS No. 123	$ 1.43	$ (0.10)	$ 1.24	$ 0.99

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

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 restricted stock after applying the treasury stock method.

Financial Guarantees

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an Interpretation of SFAS Nos. 5, 57 and 107 and a recission of FASB Interpretation No. 34." FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. FIN 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for periods ending after December 15, 2002. The Company has no guarantees as of and for the year ended January 31, 2004 or as of and for the month ended February 1, 2003.

NOTE 2 - ACQUISITION

On June 29, 2003, the Company acquired 100% of the outstanding capital stock of Greenbacks, Inc. (Greenbacks). The results of Greenbacks' operations are included in the accompanying consolidated financial statements since that date. Greenbacks was a privately-held company operating 100 stores in 10 western states and one expandable 252,000 square foot distribution center in Salt Lake City. As a result of this acquisition, the Company extended its geographical reach to include 47 states compared with 41 states prior to the acquisition. In addition, this acquisition has provided the Company with an expandable distribution infrastructure in the Rocky Mountain area of the country. The aggregate purchase price was approximately $100,000 and was paid in cash. In addition, the Company incurred approximately $800 in direct costs associated with the acquisition.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition.

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

In accordance with SFAS No. 142, goodwill will not be amortized, but rather tested annually for impairment.

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 3 - INVESTMENT

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

NOTE 4 - INCOME TAXES

Total income taxes were allocated as follows:

	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Income (loss) from continuing operations	$111,169	$ (3,279)	$ 96,812	$ 77,170
Cumulative effect of a change in accounting principle	--	(3,309)	--	--
Accumulated other comprehensive (income) loss, marking derivative financial instruments to fair value	192	61	(633)	(237)
Stockholders' equity, tax benefit on exercise of stock options	(5,620)	(65)	(10,696)	(2,345)
	$105,741	$ (6,592)	$ 85,483	$ 74,588

The provision for income taxes from continuing operations consists of the following:

	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Federal - Current	$ 76,017	$ (3,778)	$ 69,003	$ 71,504
Federal - Deferred	19,465	956	14,141	(5,339)
State - Current	15,471	(611)	11,373	11,885
State - Deferred	216	154	2,295	(880)
	$111,169	$ (3,279)	$ 96,812	$ 77,170

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

	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Statutory tax rate	35.0%	(35.0%)	35.0%	35.0%
Effect of:				
State and local income taxes, net of federal income tax benefit	3.5	(3.5)	3.5	3.6
Other, net	--	--	--	(0.1)
Effective tax rate	38.5%	(38.5%)	38.5%	38.5%

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:

	January 31, 2004	February 1, 2003	December 31, 2002
Deferred tax assets:			
Accrued expenses and other liabilities principally due to differences in the timing of deductions for reserves	$ 16,836	$ 18,383	$ 18,952
Inventories due to additional amounts inventoried for tax purposes	--	2,314	2,474
Other	1,092	1,294	1,344
Total deferred tax assets	17,928	21,991	22,770
Deferred tax liabilities:			
Intangible assets due to differences in amortization methods and lives	(6,169)	(4,159)	(4,073)
Deferred compensation primarily due to timing of contributions to the profit sharing plan	(1,087)	(1,402)	(1,443)
Property and equipment due to difference in depreciation and amortization methods and lives	(27,864)	(13,472)	(16,434)
Other	(809)	(310)	(310)
Total deferred tax liabilities	(35,929)	(19,343)	(22,260)
Net deferred tax asset (liability)	$(18,001)	$ 2,648	$ 510

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred taxes will not be realized. Based upon the availability of carrybacks of future deductible amounts to the past five 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 net 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 5 – COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

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

	Operating Leases
Fiscal year:	
2004	$ 186,861
2005	169,717
2006	138,662
2007	107,113
2008	71,556
Thereafter	127,076
	$ 800,985

Amounts presented above are as of December 31, 2003 for leases signed prior to that date. In addition, amounts presented have been updated for new leases entered into during the month of January 2004. The above future minimum lease payments include amounts for leases that were signed prior to January 31, 2004 for stores that were not open as of January 31, 2004. The above amounts exclude the future minimum lease payments associated with the lease of four distribution centers from a variable interest entity. As discussed in Note 6, the variable interest entity was consolidated in the financial statements effective January 1, 2003.

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 $302 under operating leases.

Minimum and Contingent Rentals

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

	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Minimum rentals	$ 172,720	$ 12,818	$ 142,674	$ 120,578
Contingent rentals	1,229	1	1,277	1,067
Total	$ 173,949	$ 12,819	$ 143,951	$ 121,645

Non-Operating Facilities

The Company is responsible for payments under leases for a former distribution center and certain closed stores. The lease for the facility expires in September 2005. The Company accounts for abandoned lease facilities in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Facilities are considered abandoned on the date that the Company ceases to use the facility. On this date, the Company records an expense for the present value of the total remaining costs for the abandoned facility reduced by any actual or probable sublease income. Due to the uncertainty regarding the ultimate recovery of the future lease and related payments, the Company recorded a $364 charge in 2002 and a $1,160 charge in 2001. There was no charge recorded in 2003. The total accrual for these vacated facilities was $1,310, $2,102 and $2,180 at January 31, 2004, February 1, 2003 and December 31, 2002, 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 $469, $31, $1,222 and $1,964, for the year ended January 31, 2004, the month ended February 1, 2003 and the years ended December 31, 2002 and 2001, respectively.

Management Advisory Services

During the year ended December 31, 2001, the Company paid $200 under a financial and management advisory service agreement with one of its non-employee shareholders. No payments were made under this agreement during the fiscal year ended January 31, 2004, the month ended February 1, 2003 or the calendar year ended December 31, 2002.

Purchase Contract

During 1996, the Company entered into a purchase agreement with a vendor, which committed the Company to purchase a minimum of $39,462 in vendor products by April 2003, of which $11,846 had been purchased through December 31, 2000. In June 2001, the Company terminated the agreement and recognized a $1,600 gain related to the unamortized portion of the payment received upon commencement of the contract.

Freight Services

The Company has contracted outbound freight services from various contract carriers with contracts expiring through January 2007. The total amount of these commitments is approximately $29,700, of which approximately $3,700 is committed in 2004, $7,200 is committed in 2005, and $18,800 is committed in 2006.

Technology Assets

The Company has commitments totaling approximately $24.1 million to purchase store technology assets for its stores during 2004.

Letters of Credit

In March 2001, the Company entered into a Letter of Credit Reimbursement and Security Agreement. The agreement provides $125,000 for letters of credit, which are generally issued for the routine purchase of imported merchandise. Approximately $67,011 was committed to letters of credit at January 31, 2004. The Company also has approximately $26,700 in letters of credit that serve as collateral for its high-deductible insurance programs and expire in fiscal 2004.

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 $1,128 of which $978 is committed through fiscal 2004 and $150 is committed through fiscal 2005.

Contingencies

The Company has contingent liabilities related to legal proceedings and other matters arising from the normal course of operations. Management does not expect that amounts, if any, which may be required to satisfy such contingencies will be material in relation to the accompanying consolidated financial statements.

NOTE 6 – CONSOLIDATION OF VARIABLE INTEREST ENTITY

In March 2001, the Company entered into an operating lease arrangement, known as a synthetic lease, with a variable interest entity to finance the construction of four distribution centers. At December 31, 2002, approximately $154,500 of the $165,000 facility was committed to the Stockton, Savannah, Briar Creek and Marietta facilities. Because the Company accounted for this transaction as an operating lease, the related fixed assets and lease liabilities were not included in the consolidated balance sheets.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities” (FIN 46). Under the terms of this standard, certain variable interest entities, such as the entity in which the Company’s lease facility is held, are required to be consolidated. The Company implemented this standard effective January 1, 2003 and, as a result, the distribution center assets and the debt incurred by the variable interest entity to purchase and construct the assets are included in balance sheets for periods after January 1, 2003. The cumulative effect of a change in accounting principle represents, net of the tax effect, the historical depreciation related to the distribution center assets and, the historical amortization of the deferred financing costs recognized previously by the variable interest entity and the write-off of a deferred rent liability related to the lease.

At January 31, 2004 and February 1, 2003, amounts included in the balance sheet related to the variable interest entity are as follows:

	January 31, 2004	February 1, 2003
Property and equipment, net	$ 114,426	$ 128,296
Long-term debt, excluding current portion	142,568	140,628
Other assets, net	639	945

Interest is payable monthly and the principal amount is payable upon maturity of the debt in March 2006. The debt, among other things, requires the maintenance of certain specified financial ratios, restricts the payment of certain distributions and limits certain types of debt the Company can incur. The Company refinanced the variable interest entity debt in March 2004 (see Note 14).

The following table reconciles reported net income and net income per share to net income and net income per share that would have been recorded if FIN 46 were effective for each of the periods presented:

	Year Ended December 31, 2002	2001
	(In thousands, except per share data)	
Reconciliation of net income:		
Net income	$ 154,647	$ 123,081
Less: Depreciation, amortization and deferred rent effect (net of tax)	4,121	1,164
Adjusted net income	$ 150,526	$ 121,917
Basic net income per share:		
Net income available to common shareholders	$ 1.36	$ 1.10
Depreciation, amortization and deferred rent effect (net of tax)	(0.04)	(0.01)
Adjusted net income	$ 1.32	$ 1.09
Diluted net income per share:		
Net income	$ 1.35	$ 1.09
Depreciation, amortization and deferred rent effect (net of tax)	(0.04)	(0.01)
Adjusted net income	$ 1.31	$ 1.08

NOTE 7 - BALANCE SHEET COMPONENTS

Intangible Assets

Intangible assets, net, as of January 31, 2004, February 1, 2003 and December 31, 2002 consists of the following:

	January 31, 2004	February 1, 2003	December 31, 2002
Non-competition agreements	$ 6,398	$ 4,413	$ 4,413
Accumulated amortization	(2,685)	(1,971)	(1,930)
Non-competition agreements, net	3,713	2,442	2,483
Favorable lease rights	2,189	813	813
Accumulated amortization	(806)	(262)	(236)
Favorable lease rights, net	1,383	551	577
Goodwill	130,271	49,987	49,987
Accumulated amortization	(11,629)	(11,629)	(11,629)
Goodwill, net	118,642	38,358	38,358
Total intangibles, net	$ 123,738	$ 41,351	$ 41,418

Non-Competition Agreements

The Company issued 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, which is generally over a ten-year period. In addition, in 2003, the Company acquired non-competition agreements with former executives of Greenbacks, which are being amortized over five years (see Note 2). These intangible assets will continue to be amortized over their remaining legal term in accordance with SFAS No. 142, which was adopted effective January 1, 2002.

Favorable Lease Rights

In 2002, the Company acquired favorable lease rights for operating leases for retail locations from a third party. In addition, in 2003, the Company acquired favorable lease rights in its acquisition of Greenbacks (see Note 2). 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 2012.

Amortization expense related to the non-competition agreements and favorable lease rights was $1,300 in the year ended January 31, 2004, $40 in the month ended February 1, 2003, and $746 and $483 in the years ended December 31, 2002 and 2001, respectively. Estimated annual amortization expense for the next five years follows: 2004 - $1,400; 2005 - $1,100; 2006 - $1,000; 2007 - $1,000; and 2008 - $600.

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 2003 and determined that no impairment loss existed.

The following table reconciles reported net income and net income per share that would have been recorded if SFAS No. 142 were effective for the period presented:

	Year Ended December 31, 2001
Reconciliation of net income:	
Net income	$ 123,081
Add back: Goodwill amortization (net of tax)	1,241
Adjusted net income	$ 124,322
Basic net income per share:	
Net income	$ 1.10
Goodwill amortization	0.01
Adjusted net income	$ 1.11
Diluted net income per share:	
Net income	$ 1.09
Goodwill amortization	0.01
Adjusted net income	$ 1.10

Accumulated amortization relating to goodwill was approximately $11,629 at December 31, 2001.

Property and Equipment, Net

Property and equipment, net, as of January 31, 2004, February 1, 2003 and December 31, 2002 consists of the following:

	January 31, 2004	February 1, 2003	December 31, 2002
Land	$ 16,807	$ 15,936	$ 8,059
Buildings	105,558	88,627	31,281
Improvements	252,987	204,712	185,301
Furniture, fixtures and equipment	441,259	358,744	319,811
Transportation vehicles	3,492	3,504	3,504
Construction in progress	107,703	45,720	19,936
Total property and equipment	927,806	717,243	567,892
Less: accumulated depreciation and amortization	314,592	239,296	223,570
Total	$ 613,214	$ 477,947	$344,322

Other Current Liabilities

Other current liabilities as of January 31, 2004, February 1, 2003 and December 31, 2002 consists of accrued expenses for the following:

	January 31, 2004	February 1, 2003	December 31, 2002
Compensation and benefits	$ 25,435	$ 22,243	$ 24,573
Taxes (other than income taxes)	10,450	12,808	24,364
Insurance	25,398	22,057	18,064
Other	21,488	17,925	21,236
Total	$ 82,771	$ 75,033	$ 88,237

Capital Leases

The present value of future minimum capital lease payments as of January 31, 2004 is as follows:

2004	$ 6,811
2005	8,035
2006	5,302
2007	104
2008	37
Thereafter	30
Total minimum lease payments	$ 20,319
Less amount representing interest (at an average rate of approximately 9%)	2,736
Present value of net minimum capital lease payments	17,583
Less current installments of obligations under capital leases	5,324
Obligations under capital leases, excluding current installments	$ 12,259

Included in property and equipment at January 31, 2004, February 1, 2003 and December 31, 2002 are leased furniture and fixtures and transportation vehicles, excluding sale-leaseback assets, with a cost of $5,641, $5,424 and $5,424, respectively. Accumulated depreciation on these assets totaled $3,370, $2,346 and $2,295 at January 31, 2004, February 1, 2003 and December 31, 2002, 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. The Company has an option to purchase the leasehold improvements at the end of the fifth and seventh years at amounts approximating their fair market values at the time the option is exercised. This transaction is being accounted for as a financing arrangement. The total amount of the lease obligation is $16,265 at January 31, 2004. The lease agreement includes financial covenants that are not more restrictive than those of existing loan agreements. As part of the transaction, the Company received proceeds of $20,880, net of financing costs, and an $8,120 11% note receivable, which matures in September 2006 and is included in "other assets, net." The future minimum lease payments related to the capital lease obligation are included in the schedule above.

Fair Value of Financial Instruments

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

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

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

The fair value of the interest rate swaps (see Note 9) 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 are as follows:

	January 31, 2004	**February 1, 2003**	**December 31, 2002**
$19,000 interest rate swap	$1,687	$1,892	$2,072
$10,000 interest rate swap	183	659	700
$5,000 interest rate swap	81	288	306
$25,000 interest rate swap	1,767	2,241	2,396

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

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of the following:

	January 31, 2004	February 1, 2003	December 31, 2002
7.29% unsecured Senior Notes, interest payable semiannually on April 30 and October 30, principal payable $6,000 per year beginning April 2000 and maturing April 2004	$ 6,000	$ 12,000	$ 12,000
Variable-rate debt, interest payable monthly at LIBOR, principal payable upon maturity in March 2006 (Note 6)	142,568	140,628	--
Demand Revenue Bonds, interest payable monthly at a variable rate which was 1.12% at January 31, 2004, principal payable on demand, otherwise beginning June 2006 and maturing June 2018	19,000	19,000	19,000
Total long-term debt	167,568	171,628	31,000
Less: current portion	25,000	25,000	25,000
Long-term debt, excluding current portion	$142,568	$ 146,628	$ 6,000

Maturities of long-term debt are as follows: 2004 - $25,000 and 2006 - $142,568.

Senior Notes

The holders of the Senior Notes (the Notes) have the right to require the Company to prepay the Notes in full without premium upon a change of control or upon certain other transactions by the Company. The Notes rank pari passu with the Company's other debt. The Note agreements, among other things, prohibit certain mergers and consolidations and require the maintenance of certain specified ratios. In the event of default or a prepayment at the option of the Company, the Company is required to pay a prepayment penalty equal to a make-whole amount.

Variable-Rate Debt

As indicated in Note 6, in March 2001, the Company entered into an operating lease facility with a variable interest entity. Effective with the implementation of FIN 46, the Company consolidated the variable interest entity. As a result, the balance sheets at January 31, 2004 and February 1, 2003 include the debt incurred by the variable interest entity to construct the Company's distribution center assets. The debt, among other things, requires the maintenance of certain specified financial ratios, restricts the payment of certain distributions and limits certain types of debt. The debt is secured by the related distribution center assets.

Demand Revenue Bonds

On May 20, 1998, the Company entered into a Loan Agreement with the Mississippi Business Finance Corporation (MBFC) under which the MBFC issued Taxable Variable Rate Demand Revenue Bonds (the Bonds) in an aggregate principal amount of $19,000 to finance the acquisition, construction, and installation of land, buildings, machinery and equipment for the Company's distribution facility in Olive Branch, Mississippi. The Bonds do not contain a prepayment penalty as long as the interest rate remains variable. The Bonds are secured by a $19,300 letter of credit issued by one of the Company's existing lending banks. The letter of credit is renewable annually. The Letter of Credit and Reimbursement Agreement requires, among other things, the maintenance of certain specified ratios and restricts the payment of dividends. The Bonds contain a demand provision and, therefore, are classified as current liabilities.

Revolving Credit Facility

In March 2001, the Company entered into a Revolving Credit Facility with its banks (the Revolver). Terms of the Revolver include, among other things: (1) a $50,000 revolving line of credit, bearing interest at LIBOR, plus a spread; (2) an annual facilities fee, calculated as a percentage, as defined, of the amount available under the line of credit; and (3) an annual administrative fee payable quarterly.

Effective May 30, 2003, the Company terminated its $50,000 Revolving Credit Facility concurrent with entering into a new $150,000 million Revolving Credit Facility (the Revolver Agreement). The Revolver Agreement provides for, among other things: (1) a $150.0 million revolving line of credit, bearing interest at LIBOR, plus a spread; and (2) 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 Revolver Agreement, among other things, requires the maintenance of certain specified financial ratios, restricts the payment of certain distributions and prohibits the incurrence of certain new indebtedness. The Revolver Agreement matures on May 29, 2004. As of January 31, 2004, there was no outstanding balance under the Revolver Agreement. As discussed in Note 14, the Revolver Agreement was refinanced in March 2004.

NOTE 9 – Derivative Financial Instruments

The fair value of interest rate swaps at January 31, 2004, February 1, 2003 and December 31, 2002 is approximately $3,718, $5,081 and $5,474, respectively, and is recorded in "other liabilities" on the accompanying consolidated balance sheets.

Non-Hedging Derivatives

The Company is party to three derivative instruments in the form of interest rate swaps that do not qualify for hedge accounting treatment pursuant to the provisions of SFAS No. 133. These interest rate swaps do not qualify for hedge accounting because each instrument contains a knock-out provision. The swaps create the economic equivalent of fixed rate obligations by converting the variable interest rates to fixed rates. Under these interest rate swaps, the Company pays interest to a financial institution at fixed rates, as defined in each agreement. In exchange, the financial institution pays the Company at variable interest rates, which approximate the floating rates on the variable-rate obligations, excluding the credit spreads. The interest rates on the swap are subject to adjustment monthly. No payments are made by either party for months in which the variable interest rates, as calculated under the swap agreements, are greater than the "knock-out rate." The following table summarizes the terms of each 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%
$10,000 swap	9/8/00	6/2/04	6.45%	7.41%
$ 5,000 swap	12/20/00	6/2/04	5.83%	7.41%

The $19,000 swap reduces the Company's exposure to the variable interest rate related to the Demand Revenue Bonds (see Note 8). The $10,000 and $5,000 swaps reduce the Company's exposure to interest rate fluctuations on a portion of the Company's variable interest entity debt (see Note 6).

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.

On April 12, 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. The swap creates the economic equivalent of fixed-rate debt by converting the variable-interest rate to a fixed-rate. Under this agreement, the Company pays interest to a financial institution at a fixed-rate of 5.43%. In exchange, the financial institution pays the Company at a variable-interest rate, which approximates the floating rate on the debt, excluding the credit spread. The interest rate on the swap is subject to adjustment monthly consistent with the interest rate adjustment on the debt. The swap is effective through March 2006.

NOTE 10 - 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 31, 2004, February 1, 2003 and December 31, 2002.

Net Income (Loss) Per Share

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

	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Basic income (loss) before accounting change per share:				
Income (loss) before accounting change	$177,583	$ (5,240)	$154,647	$123,081
Cumulative effect of a change in accounting principle, net of tax benefit of $3,309	--	(5,285)	--	--
Net income (loss)	$177,583	$ (10,525)	$154,647	$123,081
Weighted average number of shares outstanding	114,641	114,224	113,637	112,238
Basic income (loss) before accounting change per share	$ 1.55	$ (0.05)	$ 1.36	$ 1.10
Cumulative effect of a change in accounting principle per share	--	(0.04)	--	--
Net income (loss) per share	$ 1.55	$ (0.09)	$ 1.36	$ 1.10

	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Diluted income (loss) before accounting change per share:				
Income (loss) before accounting change	$177,583	$ (5,240)	$154,647	$123,081
Cumulative effect of a change in accounting principle, net of tax benefit of $3,309	--	(5,285)	--	--
Net income (loss)	$177,583	$ (10,525)	$154,647	$123,081
Weighted average number of shares outstanding	114,641	114,224	113,637	112,238
Dilutive effect of stock options and restricted stock (as determined by applying the treasury stock method)	940	437	910	752
Weighted average number of shares and dilutive potential shares outstanding	115,581	114,661	114,547	112,990
Diluted income (loss) before accounting change per share	$ 1.54	$ (0.05)	$ 1.35	$ 1.09
Cumulative effect of a change in accounting principle per share	--	(0.04)	--	--
Diluted income (loss) per share	$ 1.54	$ (0.09)	$ 1.35	$ 1.09

At January 31, 2004, February 1, 2003, December 31, 2002 and December 31, 2001, respectively, 203,015, 2,171,350, 1,704,153 and 731,304 stock options are not included in the calculation of the weighted average number of shares and dilutive potential shares outstanding because their effect would be anti-dilutive.

Comprehensive Income (Loss)

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

	Year Ended January 31, 2004	Month Ended February 1, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Net income (loss)	$ 177,583	$ (10,525)	$ 154,647	$ 123,081
Cumulative effect of change in accounting for derivative financial instruments (net of $44 tax expense)	--	--	--	70
Fair value adjustment – derivative cash flow hedging instruments	475	155	(1,652)	(744)
Income tax benefit (expense)	(183)	(60)	642	287
Fair value adjustment, net of tax	292	95	(1,010)	(387)
Amortization of SFAS No. 133 cumulative effect	24	2	24	15
Income tax expense	(9)	(1)	(9)	(6)
Amortization of SFAS No. 133 cumulative effect, net of tax	15	1	15	9
Total comprehensive income (loss)	$ 177,890	$ (10,429)	$ 153,652	$ 122,703

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

Restricted Stock

In 2002, the Company adopted a restricted stock plan, under which a maximum of 4,500 shares of common stock may be awarded to certain employees with no cash payments required by the recipient. Under this plan, the Company awarded 4,500 shares of common stock to an employee during 2002, which vest ratably over a three-year period. The $150 market value of the shares awarded was recorded as unearned compensation and is shown as a separate component of shareholders' equity. The unearned compensation is being amortized to compensation expense over the three-year vesting period. Total amortization for the fiscal year ended 2003, the one-month period ended February 1, 2003 and the year ended 2002 was approximately $50, $4 and $33, respectively.

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

Share Repurchase Programs

In 2001, the Company's Board of Directors authorized the repurchase of up to $100,000 of the Company's common stock in connection with the Securities and Exchange Commission's (SEC) Emergency Relief Order issued immediately following the terrorist attacks on September 11, 2001. Pursuant to this program, the Company repurchased and retired 225,000 shares of common stock for approximately $3,800. The Company's limited share repurchase plan expired concurrently with the expiration of the SEC's Exemptive Order on October 12, 2001. Shares retired under this authorization totaled 225,000.

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 may be made until November 2005 and may be made either in the open market or through privately negotiated transactions. As of January 31, 2004, 1,265,400 shares were repurchased for approximately $38,100, under this plan.

NOTE 11 – 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 31, 2004.........................	$9,760
Month Ended February 1, 2003.........................	755
Year Ended December 31, 2002.........................	9,728
Year Ended December 31, 2001.........................	8,914

Deferred Compensation Plan

The Company adopted a deferred compensation plan in 2000 providing certain highly compensated employees and executives the ability to defer a portion of their base compensation and bonuses and earn interest on their deferred amounts. The plan is an unfunded nonqualified plan; however, the Company may make discretionary contributions. The deferred amounts and earnings thereon are payable to participants, or designated beneficiaries, at specified future dates, upon retirement or death. Total cumulative participant deferrals were approximately $1,718, $871 and $848, respectively, at January 31, 2004, February 1, 2003 and December 31, 2002 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 year ended January 31, 2004, the month ended February 1, 2003 or in the years ended December 31, 2002 and 2001.

NOTE 12 - STOCK-BASED COMPENSATION PLANS

At January 31, 2004, the Company has seven stock-based compensation plans. Each plan and the accounting method are described below.

Fixed Stock Option Plans

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

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

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

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

The 2003 Equity Incentive Plan (EIP) replaces the Company's SIP plan 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 plan 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 ten years.

Stock appreciation rights may be awarded alone or in tandem with stock options. When the stock appreciation rights are exercisable, the holder may surrender all or a portion of the unexercised stock appreciation right and receive in exchange an amount equal to the excess of the fair market value at the date of exercise over the fair market value at the date of the grant.

Any restricted stock awarded is subject to certain general restrictions. The restricted stock shares may not be sold, transferred, pledged or disposed of until the restrictions on the shares have lapsed or 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 ten 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 2003	2002	2001
Expected term in years............	5.4	5.7	6.0
Expected volatility...............	60.7%	63.8%	63.0%
Annual dividend yield.............	--	--	--
Risk-free interest rate...........	3.4%	3.0%	4.9%

The following tables summarize the Company's various option plans as of January 31, 2004, February 1, 2003, December 31, 2002 and December 31, 2001, and for the year ended January 31, 2004, the month ended February 1, 2003, and the years ended December 31, 2002 and 2001 and information about fixed options outstanding at January 31, 2004:

Stock Option Activity

	January 31, 2004		February 1, 2003		2002		2001	
	Shares	**Weighted Average Per Share Exercise Price**	**Shares**	**Weighted Average Per Share Exercise Price**	**Shares**	**Weighted Average Per Share Exercise Price**	**Shares**	**Weighted Average Per Share Exercise Price**
Outstanding at beginning of period..	5,414,023	$ 24.19	5,440,547	$ 24.17	5,683,827	$ 20.39	5,091,120	$ 21.02
Granted................	1,904,057	20.54	6,000	25.26	1,723,000	31.54	1,527,250	17.67
Exercised..............	(993,841)	19.57	(12,402)	12.93	(1,632,942)	18.64	(593,597)	17.33
Forfeited	(316,768)	24.01	(20,122)	25.89	(333,338)	25.02	(340,946)	22.66
Outstanding at end of period........	6,007,471	$ 23.81	5,414,023	$ 24.19	5,440,547	$ 24.17	5,683,827	$ 20.39
Options exercisable at end of period.....	2,649,188	$ 24.31	2,340,921	$ 21.84	2,343,879	$ 21.77	2,713,081	$ 20.04
Weighted average fair value of options granted during the period...............		$ 17.08		$ 15.24		$ 18.66		$ 11.00

Range of Exercise Prices	Options Outstanding: Number Outstanding at January 31, 2004	Options Outstanding: Weighted Average Remaining Contractual Life	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number Exercisable at January 31, 2004	Options Exercisable: Weighted Average Exercise Price
$0.86.................	24,923	(1)	$ 0.86	24,923	$ 0.86
$2.95 to $8.51........	8,616	1.1 years	2.96	8,616	2.96
$8.52 to $21.28.......	2,737,681	8.0 years	18.88	603,256	17.03
$21.29 to $29.79......	1,620,075	5.6 years	24.07	1,412,987	24.07
$29.80 to $42.56......	1,616,176	7.9 years	32.36	599,406	33.47
$0.86 to $42.56.......	6,007,471			2,649,188	

Stock Options Outstanding and Exercisable

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

On December 11,2003, the Compensation Committee of the Company’s Board of Directors committed to grant to the Company’s Chief Executive Officer, a performance share award under the EIP for 30,000 shares based on the Company achieving certain sales and profitability targets in fiscal 2004. If the targets are achieved, 10,000 of the shares vest when they are granted at the end of fiscal 2004 with the remaining shares vesting half at the end of fiscal 2005 and half at the end of fiscal 2006.

Employee Stock Purchase Plan

Under the Dollar Tree Stores, Inc. Employee Stock Purchase Plan (ESPP), the Company is authorized to issue up to 759,375 shares of common stock to eligible employees. Under the terms of the ESPP, employees can choose to have up to 10% of their annual base earnings withheld to purchase the Company's common stock. The purchase price of the stock is 85% of the lower of the price at the beginning or the end of the quarterly offering period. Under the ESPP, the Company has sold 506,403 shares as of January 31, 2004.

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:

Expected term	3 months
Expected volatility...................................	14% to 72%
Annual dividend yield.................................	--
Risk-free interest rate...............................	1.04% to 6.20% (annualized)

The weighted average per share fair value of those purchase rights granted in 2003, 2002 and 2001 was $4.83, $5.02 and $3.98, respectively.

NOTE 13 - QUARTERLY FINANCIAL INFORMATION AND MONTHS ENDED FEBRUARY 1, 2003 AND JANUARY 31, 2002 FINANCIAL INFORMATION (Unaudited)

The following table sets forth certain items from the Company's unaudited statements of operations for each quarter of fiscal year 2003 and 2002 and for the months ended February 1, 2003 and January 31, 2002. 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 or month are not necessarily indicative of results for a full year or for any future period.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except store and per share data)			
Fiscal 2003:				
Net sales..................................	$ 615,568	$ 626,028	$ 665,211	$ 893,065
Gross profit...............................	217,788	221,107	243,599	330,326
Operating income...........................	54,491	47,600	60,365	131,141
Net income.................................	32,795	28,799	36,161	79,828
Diluted net income per share...............	0.29	0.25	0.31	0.69
Stores open at end of quarter..............	2,319	2,468	2,511	2,513
Comparable store net sales increase (1)....	2.2%	5.1%	1.7%	1.6%

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except store and per share data)			
Fiscal 2002 (February 1, 2002-February 1, 2003):				
Net sales	$509,668	$ 512,444	$ 556,864	$ 778,860
Gross profit	184,509	183,123	205,183	281,409
Operating income	45,716	41,240	51,277	109,155
Income before cumulative effect of a change in accounting principle	--	--	--	66,903
Cumulative effect of a change in accounting principle	--	--	--	(5,285)
Net income	28,082	24,626	30,894	61,618
Diluted net income per share before cumulative effect of a change in accounting principle	--	--	--	0.58
Cumulative effect of a change in accounting principle	--	--	--	(0.04)
Diluted net income per share	0.25	0.21	0.27	0.54
Stores open at end of quarter	2,048	2,114	2,211	2,272
Comparable store net sales increase (1)	0.89%	3.08%	0.43%	(1.7%)

(1) Easter was observed on April 20, 2003, March 31, 2002, and April 15, 2001.

	Month Ended February 1, 2003	Month Ended January 31, 2002
Net sales	$ 160,789	$ 132,140
Gross profit	46,809	40,541
Operating loss	(8,428)	(1,895)
Loss before cumulative effect of a change in accounting principle	(5,239)	--
Cumulative effect of a change in accounting principle	(5,285)	--
Net loss	(10,525)	(1,097)
Diluted net loss per share before cumulative effect of a change in accounting principle	(0.05)	--
Cumulative effect of a change in accounting principle	(0.04)	--
Diluted net loss per share	(0.09)	(0.01)
Stores open at end of period	2,272	1,994

NOTE 14 – SUBSEQUENT EVENT (Unaudited)

In March 2004, the Company entered into a five-year Revolving Credit Facility (the Facility). The Facility provides for, among other things: (1) a $450,000 revolving line of credit, including up to $50,000 in available letters of credit, bearing interest at LIBOR, plus 0.475%; and (2) 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 (see Note 8). The Company's existing $150,000 revolving credit facility (Old Facility) (see Note 8) 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 accompanying consolidated balance sheet totaling $727, will be charged to interest expense in the first quarter of fiscal 2004. As a result of the repayment of the variable-rate debt, the assets of the variable-interest entity were transferred to the Company and the $25,000, $10,000 and $5,000 interest rate swaps previously designated to the variable-rate date were redesignated to new borrowings under the Facility. This redesignation does not affect the accounting methods used for the individual interest rate swaps.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

During the third and fourth quarters of 2002, we appointed a disclosure committee, which evaluated and documented our disclosure controls, formalized certain disclosure control procedures, and reported to our chief executive officer and chief financial officer. Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 of the Securities and Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, our chief executive officer and our chief financial officer concluded that as of the date of our evaluation, the Company’s disclosure controls and procedures (as defined in Rule 13a-14(c) under the Exchange Act) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal controls

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of our most recent evaluation. In accordance with Section 404 of the Sarbanes-Oxley Act of 2002, the Company is evaluating its internal controls and is in the process of making changes to improve the effectiveness of its internal control structure.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning our Directors and Executive Officers required by this Item is incorporated by reference to Dollar Tree Stores, Inc.'s Proxy Statement relating to our Annual Meeting of Shareholders to be held on June 17, 2004, under the caption "Election of Directors."

Information set forth in the Proxy Statement under the caption "Compliance with Section 16(a) of the Securities and Exchange Act of 1934," with respect to director and executive officer compliance with Section 16(a), is incorporated herein by reference.

The information concerning our code of ethics required by this Item is incorporated by reference to Dollar Tree Stores, Inc.'s Proxy Statement relating to our Annual Meeting of Shareholders to be held on June 17, 2004, under the caption "Code of Business Conduct (Code of Ethics)."

Item 11. EXECUTIVE COMPENSATION

Information set forth in the Proxy Statement under the caption "Compensation of Executive Officers," with respect to executive compensation, is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information set forth in the Proxy Statement under the caption "Ownership of Common Stock," with respect to security ownership of certain beneficial owners and management, is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information set forth in the Proxy Statement under the caption "Certain Relationships and Related Transactions," is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information set forth in the Proxy Statement under the caption "Principal Accounting Fees and Services," is incorporated herein by reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

1. Financial Statements. Reference is made to the Index to the Consolidated Financial Statements set forth under Part II, Item 8, on Page 23 of this Form 10-K.

2. Financial Statement Schedules. All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, are not applicable, or the information is included in the Consolidated Financial Statements, and therefore have been omitted.

3. Exhibits. The exhibits listed on the accompanying Index to Exhibits, on page 51 of this Form 10-K, are filed as part of, or incorporated by reference into, this report.

(b) The following reports on Form 8-K were filed since November 1, 2003:

1. Report on Form 8-K, filed April 6, 2004, included a business update for the first quarter of fiscal 2004.

2. Report on Form 8-K, filed March 31, 2004, included a press release regarding the transition of Dollar Tree Stores, Inc.'s Chief Financial Officer to a new expanded Corporate Secretary position and its nationwide search for a new Chief Financial Officer.

3. Report on Form 8-K, filed March 19, 2004, regarding the participation of Dollar Tree Stores, Inc. in the Merrill Lynch Retailing Leaders Conference, the closing of a revolving debt facility and the opening of the Ridgefield, Washington distribution center.

4. Report on Form 8-K, filed February 27, 2004, included the summarized information discussed in Dollar Tree Stores, Inc.'s publicly available telephone conference call on February 24, 2004, regarding its fiscal fourth quarter and full year 2003 earnings results.

5. Report on Form 8-K, filed February 24, 2004, included a press release regarding earnings for the fiscal fourth quarter ended January 31, 2004 and the year then ended.

6. Report on Form 8-K, filed February 5, 2004, included a press release regarding the fiscal fourth quarter 2003 sales results.

7. Report on Form 8-K, filed January 5, 2004, included a business update for the fourth quarter of fiscal 2003.

8. Report on Form 8-K, filed on December 16, 2003, regarding the appointment of a new member to the Company's Board of Directors.

9. Report on Form 8-K, filed on November 28, 2003, included the summarized information discussed in Dollar Tree Stores, Inc.'s publicly available telephone conference call on November 25, 2003 regarding its fiscal third quarter 2003 earnings results.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DOLLAR TREE STORES, INC.

DATE: April 13, 2004

By: /s/ Bob Sasser
Bob Sasser
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Macon F. Brock, Jr. Macon F. Brock, Jr.	Chairman; Director	April 13, 2004
/s/ Bob Sasser Bob Sasser	Chief Executive Officer (principal executive officer)	April 13, 2004
/s/ John F. Megrue John F. Megrue	Director	April 13, 2004
/s/ J. Douglas Perry J. Douglas Perry	Chairman Emeritus; Director	April 13, 2004
/s/ H. Ray Compton H. Ray Compton	Director	April 13, 2004
/s/ Frederick C. Coble Frederick C. Coble	Chief Financial Officer (principal financial and accounting officer)	April 13, 2004
/s/ Richard G. Lesser Richard G. Lesser	Director	April 13, 2004
/s/ Thomas A. Saunders, III Thomas A. Saunders, III	Director	April 13, 2004
/s/ Eileen R. Scott Eileen R. Scott	Director	April 13, 2004
/s/ Thomas E. Whiddon Thomas E. Whiddon	Director	April 13, 2004
/s/ Alan L. Wurtzel Alan L. Wurtzel	Director	April 13, 2004

Index to Exhibits

3. Articles and Bylaws

   3.1 Third Restated Articles of Incorporation of Dollar Tree Stores, Inc. (the Company), as amended (Exhibit 3.1 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1996 incorporated herein by this reference)

   3.2 Second Restated Bylaws of the Company (Exhibit 3.2 to the Company’s Registration Statement on Form S-1, No. 33-88502, incorporated herein by this reference)

10. Material Contracts

    10.1 Credit Agreement among Dollar Tree Distribution, Inc., as Borrower, Certain of the Domestic Affiliates of the Borrower from Time to Time Parties Hereto, as Guarantors; the Lender Parties Hereto, Fleet National Bank, as Syndication Agent, SunTrust Bank, as Documentation Agent, and Wachovia Bank, National Association, as Administrative Agent, dated as of May 30, 2003 (Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended May 3, 2003, incorporated herein by this reference)

21. Subsidiaries of the Registrant

    21.1 Subsidiaries

23. Consents of Experts and Counsel

    23.1 Independent Auditors' Consent

31. Certifications required under Section 302 of the Sarbanes-Oxley Act

    31.1 Certification required under Section 302 of the Sarbanes-Oxley Act of Chief Executive Officer

    31.2 Certification required under Section 302 of the Sarbanes-Oxley Act of Chief Financial Officer

32. Statements under Section 906 of the Sarbanes-Oxley Act

    32.1 Statement under Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer
    32.2 Statement under Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

The registrant is the parent company of Dollar Tree Distribution, Inc., a distribution, warehousing and wholesale company, and Dollar Tree Management, Inc., a management services company, both of which are Virginia companies. Certain other subsidiaries are not included because, when considered in the aggregate as a single subsidiary, they do not constitute a significant subsidiary as of January 31, 2004.

EXHIBIT 23.1

Independent Auditors' Consent

The Board of Directors
Dollar Tree Stores, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 33-92812, 33-92814, 33-92816, 333-38735, 333-61139, 333-41248, 333-106886, 333-106884, 333-106883) on Form S-8 of Dollar Tree Stores, Inc. of our report dated February 23, 2004, with respect to the consolidated balance sheets of Dollar Tree Stores, Inc. and subsidiaries (the Company) as of January 31, 2004, February 1, 2003 and December 31, 2002, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for the year ended January 31, 2004, the one-month period ended February 1, 2003 and for each of the years in the two-year period ended December 31, 2002, which report appears in the January 31, 2004 annual report on Form 10-K of Dollar Tree Stores, Inc.

Our report on the financial statements of Dollar Tree Stores, Inc. and subsidiaries refers to the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and Financial Accounting Standards Board Interpretation 46, *Consolidation of Variable Interest Entities.*

/s/ KPMG LLP

Norfolk, Virginia
April 9, 2004

EXHIBIT 31.1

Chief Executive Officer Certification

I, Bob Sasser, certify that:

1. I have reviewed this annual report on Form 10-K of Dollar Tree Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2004

/s/ Bob Sasser
Bob Sasser
Chief Executive Officer

EXHIBIT 31.2

Chief Financial Officer Certification

I, Frederick C. Coble, certify that:

1. I have reviewed this annual report on Form 10-K of Dollar Tree Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 13, 2004

/s/ Frederick C. Coble
Frederick C. Coble
Chief Financial Officer

EXHIBIT 32.1

Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Dollar Tree Stores, Inc. (the "Company") on Form 10-K for the year ending January 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bob Sasser, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 13, 2004	/s/ Bob Sasser
Date	Bob Sasser
	Chief Executive Officer

A signed original of this written statement required by Section 906 has been furnished to Dollar Tree Stores, Inc. and will be retained by Dollar Tree Stores, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Dollar Tree Stores, Inc. (the "Company") on Form 10-K for the year ending January 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frederick C. Coble, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 13, 2004	/s/ Frederick C. Coble
Date	Frederick C. Coble Chief Financial Officer

A signed original of this written statement required by Section 906 has been furnished to Dollar Tree Stores, Inc. and will be retained by Dollar Tree Stores, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.