FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

(Mark One)
(X) Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2001

( ) Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

Commission File Number: 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, Virginia 23320
(Address of principal executive offices)

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

Indicate by check mark whether the 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 ( )

As of August 8, 2001, there were 112,348,677 shares of the Registrant's Common Stock outstanding.

DOLLAR TREE STORES, INC.
AND SUBSIDIARIES

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DOLLAR TREE STORES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2001 (Unaudited)	December 31, 2000
ASSETS		
Current assets:		
<S>	<C>	<C>
Cash and cash equivalents	$ 90,672	$181,166
Merchandise inventories	334,614	258,687
Deferred tax asset	9,763	8,291
Prepaid expenses and other current assets	29,350	29,370
Total current assets	464,399	477,514
Property and equipment, net	250,001	211,632
Deferred tax asset	2,061	1,566
Goodwill, net	39,367	40,376
Other assets, net (Notes 5 and 6)	16,446	15,771
TOTAL ASSETS	$772,274	$746,859
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 94,692	$ 75,404
Income taxes payable	10,661	23,448
Other current liabilities	34,715	46,906
Current portion of long-term debt	25,000	25,000
Current installments of obligations under capital leases	3,676	3,547
Total current liabilities	168,744	174,305
Long-term debt, excluding current portion	12,000	18,000
Obligations under capital leases, excluding current installments	23,299	25,183
Other liabilities (Note 5)	13,958	10,713
Total liabilities	218,001	228,201
Shareholders' equity (Notes 5 and 7):		
Common stock, par value $0.01. Authorized 300,000,000 shares, 112,206,662 shares issued and outstanding at June 30, 2001 and 112,046,201 shares issued and outstanding at December 31, 2000	1,122	1,121
Additional paid-in capital	159,742	156,780
Accumulated other comprehensive income	211	--
Retained earnings	393,198	360,757

Total shareholders' equity	554,273	518,658
Contingencies and subsequent events (Note 8)	--	--
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$772,274	$746,859

See accompanying Notes to Condensed Consolidated Financial Statements

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DOLLAR TREE STORES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENTS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Net sales	$440,361	$384,503	$827,680	$711,614
Cost of sales	283,274	246,458	539,132	459,996
Merger related costs	--	1,100	--	1,100
Gross profit	157,087	136,945	288,548	250,518
Selling, general and administrative expenses:				
Operating expenses	108,854	87,697	210,545	169,358
Merger related expenses	--	3,266	--	3,266
Depreciation and amortization	12,988	9,556	24,819	18,249
Total selling, general and administrative expenses	121,842	100,519	235,364	190,873
Operating income	35,245	36,426	53,184	59,645
Other income (expense):				
Interest income	1,151	1,319	2,832	3,097
Interest expense	(1,355)	(1,937)	(2,649)	(4,215)
Other, net (Note 5)	197	--	(595)	--
Total other expense	(7)	(618)	(412)	(1,118)

Income before income taxes	35,238	35,808	52,772	58,527
Provision for income taxes	13,580	14,273	20,331	23,040
Income before extraordinary item	21,658	21,535	32,441	35,487
Loss on debt extinguishment, net of tax benefit of $242	--	387	--	387
Net income	21,658	21,148	32,441	35,100
Less: Preferred stock dividends and accretion	--	337	--	1,413
Net income available to common shareholders	$ 21,658	$ 20,811	$ 32,441	$ 33,687
Basic net income per common share (Note 4):				
Income before extraordinary item	$ 0.19	$ 0.21	$ 0.29	$ 0.34
Net income	0.19	0.20	0.29	0.34
Diluted net income per common share (Note 4):				
Income before extraordinary item	$ 0.19	$ 0.19	$ 0.29	$ 0.31
Net income	0.19	0.19	0.29	0.31

See accompanying Notes to Condensed Consolidated Financial Statements

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DOLLAR TREE STORES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Cash flows from operating activities:		
<S>	<C>	<C>
Net income	$ 32,441	$ 35,100
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	24,819	18,249
Loss on disposal of property and equipment	862	467
Extraordinary loss on early extinguishment of debt	--	629
Provision for deferred income taxes	(2,011)	(286)
Tax benefit of stock option exercises	575	8,548
Other non-cash adjustments to net income	(458)	(283)
Changes in assets and liabilities increasing (decreasing) cash and cash equivalents:		
Merchandise inventories	(75,927)	(91,679)
Prepaid expenses and other current assets	20	(1,217)
Other assets, net	(545)	579
Accounts payable	19,288	5,096
Income taxes payable	(12,787)	(24,425)

Other current liabilities	(12,012)	(10,679)
Other liabilities	3,646	852
Net cash used in operating activities	(22,089)	(59,049)
Cash flows from investing activities:		
Capital expenditures	(62,833)	(44,532)
Proceeds from sale of property and equipment	34	142
Net cash used in investing activities	(62,799)	(44,390)
Cash flows from financing activities:		
Proceeds from revolving credit facilities	--	7,000
Repayment of long-term debt and facility fees	(6,239)	(27,683)
Repayment of revolving credit facilities	--	(13,500)
Principal payments under capital lease obligations	(1,755)	(1,567)
Proceeds from stock issued pursuant to stock-based compensation plans	2,388	13,019
Net cash used in financing activities	(5,606)	(22,731)
Net decrease in cash and cash equivalents	(90,494)	(126,170)
Cash and cash equivalents at beginning of period	181,166	181,587
Cash and cash equivalents at end of period	$ 90,672	$ 55,417
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	2,723	4,455
Income taxes	34,526	39,098
Non-cash investing activities:		
Purchase of equipment under capital lease obligations	--	68

See accompanying Notes to Condensed Consolidated Financial Statements

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DOLLAR TREE STORES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements at June 30, 2001, and for the three- and six-month periods then ended, are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2000, contained in the Company's Annual Report on Form 10-K filed March 30, 2001. The results of operations for the three- and six-month periods ended June 30, 2001 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2001.

Certain 2000 amounts have been reclassified for comparability with the 2001 financial statement presentation.

2. REVOLVING CREDIT FACILITY AND LETTERS OF CREDIT

Effective March 12, 2001, the Company entered into a Revolving Credit Facility with its banks (Revolver Agreement). The Revolver Agreement provides for, among other things: (1) a $50.0 million revolving line of credit, bearing interest at the agent bank's prime interest rate or LIBOR, plus a spread, at the option of the Company; (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. 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 March 11, 2002. At June 30, 2001, no amount was outstanding under the Revolving Credit Facility.

Effective March 12, 2001, the Company entered into a Letter of Credit Reimbursement and Security Agreement that terminates on March 11, 2002. The agreement provides $125.0 million for letters of credit, which are generally issued in relation to routine purchases of imported merchandise. At June 30, 2001, $92.8 million was committed to letters of credit.

The Company's $135.0 million revolving credit facility, which included provisions for letters of credit, was terminated concurrent with entering into the new facilities discussed above.

3. OPERATING LEASE AGREEMENT

Effective March 12, 2001, the Company entered into an operating lease facility (Lease Facility) with its banks. The Lease Facility provides for, among other things: (1) a $165.0 million operating lease facility, bearing interest at the agent bank's prime interest rate or LIBOR, plus a spread, at the option of the Company; (2) an annual facilities fee, calculated as a percentage of the amount available under the facility; and (3) an annual administrative fee payable quarterly. The Lease 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. Approximately $93.0 million is committed to the Stockton, Savannah and Briar Creek distribution centers. In addition, approximately $20.0 million is committed for expansion of the Stockton distribution center. This facility replaced the operating lease facilities for the Stockton, Savannah and Briar Creek distribution centers and expires in March 2006.

Under this type of agreement, the lessor purchases the property, pays for the construction costs and subsequently leases the facility to the Company. The lease provides for a residual value guarantee and includes a purchase option based on the outstanding property costs plus any unpaid interest and rents under the lease agreement. Each reporting period, the Company estimates its liability under the residual value guarantee and, if necessary, records additional rent expense on a straight-line basis over the remaining lease term.

4. NET INCOME PER COMMON SHARE

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The following table sets forth the calculation of basic and diluted income before extraordinary item per common share:

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
	(In thousands, except per share data)			
<S>	<C>	<C>	<C>	<C>
Basic income before extraordinary item per common share:				
Income before extraordinary item........................	$ 21,658	$ 21,535	$ 32,441	$ 35,487
Less: Preferred stock dividends and accretion	--	337	--	1,413
Income before extraordinary item available to common shareholders.....................	21,658	21,198	32,441	34,074
Weighted average number of common shares outstanding............................	112,182	101,615	112,140	100,323

Basic income before extraordinary item per common share	$ 0.19	$ 0.21	$ 0.29	$ 0.34
Diluted income before extraordinary item per common share:				
Income before extraordinary item available to common shareholders	$ 21,658	$ 21,198	$ 32,441	$ 34,074
Weighted average number of common shares outstanding	112,182	101,615	112,140	100,323
Dilutive effect of stock options and warrants (as determined by applying the treasury stock method)	670	10,133	668	9,874
Weighted average number of common shares and dilutive potential common shares outstanding	112,852	111,748	112,808	110,197
Diluted income before extraordinary item per common share	$ 0.19	$ 0.19	$ 0.29	$ 0.31

</TABLE>

At June 30, 2001, 790,539 stock options are not included in the calculation of the weighted average number of common shares and dilutive potential common shares outstanding because their effect would be anti-dilutive.

On March 20, 2001, the Board of Directors granted options to employees under the Company's Stock Incentive Plan to purchase 1,403,000 shares of the Company's common stock.

5. ACCOUNTING CHANGE

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." 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. The Company's interest rate swaps in effect at January 1, 2001 did not qualify for hedge accounting pursuant to the provisions of SFAS No. 133. As a result, the interest rate swaps were recorded at their fair values in the consolidated balance sheet on January 1, 2001 as a component of "accumulated other comprehensive income" (see Note 7). The $595,000 net decrease in their fair values during the first six months of 2001 was recorded currently in earnings as a component of "other, net."

6. DERIVATIVE FINANCIAL INSTRUMENTS

On April 12, 2001, the Company entered into a $25.0 million interest rate swap agreement (swap) to manage the risk associated with interest rate fluctuations on a portion of its $165.0 million operating lease facility. The swap creates the economic equivalent of a fixed rate lease 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 lease agreement, excluding the credit spread. The interest rate on the swap is subject to adjustment monthly consistent with the interest rate adjustment on the operating lease facility. The swap is effective through March 2006. This interest rate swap qualifies for hedge accounting treatment in accordance with SFAS No. 133. Accordingly, changes in the fair value of the interest rate swap will be reported in the consolidated balance sheets as a component of "accumulated other comprehensive income." These amounts will be subsequently reclassified into rent expense as a yield adjustment in the period in which the related interest on the variable rate obligations affects earnings.

7. COMPREHENSIVE INCOME

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

	Three months ended June 30, 2001	Three months ended June 30, 2000	Six months ended June 30, 2001	Six months ended June 30, 2000
	(In thousands)		(In thousands)	
Net income	$ 21,658	$ 21,148	$ 32,441	$ 35,100
Cumulative effect of change in accounting for derivative financial instruments(net of $44 tax expense)	--	--	70	--
Fair value adjustment - derivative hedging instruments	133	--	133	--
Other comprehensive income	4	--	8	--
Total comprehensive income	$ 21,795	$ 21,148	$ 32,652	$ 35,100

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

8. SUBSEQUENT EVENT

On July 19, 2001, the Company was sued by a salaried California store manager who alleges that he should have been classified as a non-exempt employee and, therefore, should have received overtime compensation. The suit also requests that the California state court certify the case as a class action on behalf of the management employees in all of the Company's California stores. The Company will vigorously defend itself in this matter. At this stage of the litigation, it is too early for the Company to predict its ultimate liability related to these allegations.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

INTRODUCTORY NOTE: Unless otherwise stated, references to "we," "our" and "us" generally refer to Dollar Tree Stores, Inc. and its direct and indirect subsidiaries on a consolidated basis.

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 or results and typically use words such as believe, anticipate, expect, intend, plan or estimate. For example, our forward-looking statements include statements regarding:

- comparable store net sales in future periods, including the effect on sales at existing stores from opening and expanding stores;
- our growth plans, including our plans to add, expand or relocate stores;

- the timing and potential costs associated with moving to our new Briar Creek distribution center and our move from the Philadelphia distribution center;
- a possible increase in shrink resulting from an increase in the percentage of larger stores that we operate;

- the possible effect of inflation and other economic changes on our future costs and profitability; and

- our cash needs, including our ability to fund our future capital expenditures and working capital requirements.

These forward-looking statements are subject to numerous risks and uncertainties that may affect us including:

- adverse weather and economic conditions, such as consumer confidence;

- possible difficulties in meeting our sales and other expansion goals and anticipated comparable store net sales results, which may result in loss of leverage of increasing selling, general and administrative expenses;

- the difficulties and uncertainties in adding and operating larger stores, with which we have less experience;

- the seasonality of our sales and the importance of our fourth quarter operating results;

- increases in the cost of or disruption of the flow of our imported goods, especially from China;

- the difficulties relating to our aggressive growth plans, including opening stores on a timely basis and the impact of new and expanded stores on sales at our existing stores nearby;

- possible delays, costs and other difficulties in opening our Briar Creek distribution center;

- possible increases in merchandise costs, shipping rates, freight costs, fuel costs, wage levels, inflation, competition and other adverse economic factors; and

- the capacity and performance of our distribution system and our ability to expand its capacity in time to support our sales growth.

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" sections in our Annual Report on Form 10-K filed March 30, 2001. Also, carefully review "Risk Factors" in our most recent prospectuses filed November 15, 2000 and August 3, 2000.

In light of these risks, uncertainties and assumptions, the future events, developments or results described by our forward-looking statements in this document could turn out to be materially different from those we discuss or imply. We have no obligation to publicly update or revise our forward-looking statements after the date of this quarterly report and you should not expect us to do so.

Results of Operations

The Three Months Ended June 30, 2001 Compared To The Three Months Ended June 30, 2000

Net Sales. Net sales increased 14.5% in the second quarter of 2001 compared to the same period in 2000. The $55.9 million increase in net sales resulted from sales at stores that are not included in our comparable store net sales calculation partially offset by a 2.7% decrease in our comparable store net sales.

We believe our comparable store net sales decreased for the following reasons:

- The Easter holiday shifted to one week earlier in the second quarter in 2001 as compared to 2000, decreasing the amount of Easter sales in the second quarter of 2001 compared to 2000. We experienced a 14.3% comparable store net sales increase in the second quarter of 2000.

- Customer traffic was down slightly throughout the quarter.

We include expanded and relocated stores in the calculation of our comparable store net sales. Sales at these expanded and relocated stores positively affect our reported comparable store net sales results.
<TABLE>
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The following table summarizes our store openings and closings and our relocations and expansions for the second quarters of 2001 and 2000:

Average Gross	Square Footage

Period	Total Store Openings	Square Feet Per New Store	Store Closings	Relocations and Expansions	Increase Since 3/31
Second Quarter 2001	89	9,700	7	22	9.1%
Second Quarter 2000	73	8,100	4	31	8.8%

At June 30, 2001, we operate 1,863 stores with 11.5 million total gross square feet. Approximately 526, or 28.2%, of our stores at June 30, 2001 are at least 7,000 gross square feet.

We expect to increase our total gross square footage approximately 27% to 29% in 2001. Our management anticipates that net sales growth during the next twelve months will come mostly from square footage growth related to new store openings and expansion of existing stores. We believe our comparable store net sales may decrease by up to 3% in the third quarter and we anticipate an increase of approximately 2% in the fourth quarter.

Gross Profit. Our gross profit as a percentage of sales is called our gross profit margin. Excluding merger related costs in 2000, our gross profit margin decreased to 35.7% in the second quarter of 2001 compared to 35.9% in the same period in 2000. The decrease in gross profit margin for the quarter is primarily due to:

- inventory shrink primarily related to continuing challenges in operating our Philadelphia distribution network;
- loss of leverage on occupancy costs; and
- markdowns primarily resulting from special promotions in select stores.

The above decreases in gross profit margin were partially offset by improved merchandise costs, which include freight costs. The improved merchandise costs are primarily the result of improved pricing from vendors and selling a higher percentage of import merchandise compared to last year. In addition, we terminated a purchase agreement previously entered into by Dollar Express and recorded a $1.6 million gain. The gain related to the unamortized portion of a payment received upon commencement of the contract.

We believe that our overall shrink may increase as a percentage of net sales as we continue to open larger stores and they become a higher percentage of our store base. We believe the increased shrink in our larger stores results from the increased visibility of the store and from carrying a higher percentage of needs-based consumable merchandise.

During the third quarter, we expect to buy more consumable products to meet customer demand because of the lack of seasonal merchandise sales. In addition, we expect to buy more consumable products to supply our increasing population of larger stores. Consumable products are generally domestically produced and carry a higher cost than our other domestic items.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, excluding depreciation and amortization, increased 19.7% in the second quarter of 2001 compared to the same period in 2000. Excluding merger related expenses in 2000, selling, general and administrative expenses, excluding depreciation and amortization, increased as a percentage of net sales to 24.7% in the second quarter of 2001 compared to 22.8% in the second quarter of 2000. The increase in selling, general and administrative expenses resulted from:

- loss of leverage caused by the 2.7% decrease in comparable store net sales; and
- an increase in payroll-related costs, including workers' compensation.

Depreciation and amortization increased to 2.9% as a percentage of net sales for the three months ended June 30, 2001 compared to 2.5% in the same period in 2000. The increase as a percentage of net sales is primarily due to loss of leverage and increased depreciation expense associated with expanded and relocated stores.

During the third quarter, we expect to incur approximately $1.0 million to $2.0 million of expenses in connection with the move to our new Briar Creek distribution facility. These estimated costs include the lease loss charge and other expenses associated with the move to Briar Creek.

Operating Income. Due to the reasons discussed above, our operating income, excluding merger related items in 2000, decreased as a percentage of net sales to 8.0% in the second quarter of 2001 from 10.6% in the same period in 2000.

Interest Income/Expense. Interest income decreased $0.1 million in the second quarter of 2001 compared to the second quarter of 2000. This decrease resulted from lower levels of cash and cash equivalents throughout the three months ended June 30, 2001 compared with the three months ended June 30, 2000. In addition, we earned a lower rate on our investments because of the decrease in interest rates compared to the comparable period in 2000. Interest expense decreased to $1.4 million in the second quarter of 2001 from $1.9 million in the second quarter of 2000. This decrease resulted primarily from the repayment of approximately $34.5 million of debt during the second quarter of 2000, including the amounts outstanding on our revolving credit facilities.

Income Taxes. Our effective tax rate decreased to 38.5% for the second quarter of 2001 from 39.8% for the second quarter of 2000. Our tax rate was higher in 2000 because of the non-deductible merger related expenses incurred in the second quarter of 2000.

The Six Months Ended June 30, 2001 Compared To The Six Months Ended June 30, 2000

Net Sales. Net sales increased 16.3% for the first six months of 2001 compared to the same period in 2000. We attribute this $116.1 million increase in net sales to sales at stores that are not included in our comparable store net sales calculation partially offset by a 1.3% decrease in our comparable store net sales in the first half of 2001.

We believe our comparable store net sales decreased during the first half of 2001 because of:

o decreased traffic patterns throughout 2001 as compared to 2000 as a result of the weaker U.S. economy during the first half of 2001; and

o the shift in the Easter holiday to one week earlier in April 2001, which resulted in a shorter Easter selling season.

We include expanded and relocated stores in the calculation of our comparable store net sales. Sales at these expanded and relocated stores positively affect our reported comparable store net sales results.

<TABLE>
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The following table summarizes our store openings and closings and our relocations and expansions for the second quarters of 2001 and 2000:

Period	Total Store Openings	Average Gross Square Feet Per New Store	Store Closings	Relocations and Expansions	Square Footage Increase Since 12/31
<S>	<C>	<C>	<C>	<C>	<C>
Year-to-Date 2001	149	9,500	15	53	16.6%
Year-to-Date 2000	132	7,600	5	52	15.2%

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Gross Profit. Excluding merger related costs in 2000, our year-to-date gross profit margin decreased to 34.9% in 2001 compared to 35.4% in 2000. The decrease in gross profit margin for the quarter is primarily due to:

o inventory shrink and temporary workforce inefficiencies caused by continuing challenges in operating our Philadelphia distribution network; and

o loss of leverage on occupancy costs.

The above decreases in gross profit margin were partially offset by improved merchandise costs, which include freight costs. The improved merchandise costs are primarily the result of improved pricing from vendors and selling a higher percentage of import merchandise compared to last year.

Selling, General and Administrative Expenses. Excluding merger related expenses in 2000, selling, general and administrative expenses, excluding depreciation and amortization, increased as a percentage of net sales to 25.4% in the first half of 2001 compared to 23.8% in the first half of 2000. The increase in selling, general and administrative expenses resulted from:

- o loss of leverage caused by the 1.3% decrease in comparable store net sales; and

- o an increase in workers' compensation expense.

In addition, certain expenses, such as store supplies and repairs and maintenance costs, increased disproportionately with our growth rate primarily as a result of opening larger stores.

Depreciation and amortization increased to 3.0% as a percentage of net sales in 2001 compared to 2.6% in 2000. The increase as a percentage of net sales is primarily due to loss of leverage and increased depreciation expense associated with expanded and relocated stores.

Operating Income. Due to the reasons discussed above, excluding merger related items in 2000, operating income decreased as a percentage of net sales to 6.4% for the first six months of 2001 from 9.0% for the same period in 2000.

Interest Income/Expense. Interest income decreased $0.3 million in the first six months of 2001 compared to the first six months of 2000. This decrease resulted from lower levels of cash and cash equivalents throughout the six months ended June 30, 2001 compared with the same period in 2000. In addition, we earned a lower rate on our investments because of the decrease in interest rates compared to the comparable period in 2000. Interest expense decreased to $2.6 million in the first half of 2001 from $4.2 million in the first half of 2000. This decrease resulted primarily from the repayment of approximately $34.5 million of debt during the second quarter of 2000, including the amounts outstanding on our revolving credit facilities.

Income Taxes. Our effective tax rate decreased to 38.5% for the six months ended June 30, 2001 from 39.4% for the six months ended June 30, 2000. Our tax rate was higher in 2000 because of the non-deductible merger related expenses incurred in the second quarter of 2000.

Liquidity and Capital Resources

Our business requires capital to open new stores and operate existing stores. Our working capital requirements for existing stores are seasonal in nature and typically reach their peak in the months of September and October. Historically, we have satisfied our seasonal working capital requirements for existing stores and funded our store opening and relocation and expansion program from internally generated funds and borrowings under our credit facilities.

The following table compares cash-related information for the six months ended June 30, 2001 and 2000:

	Six Months Ended June 30,	
	2001	2000
	(in millions)	
Net cash used in:		
Operating activities..................	$(22.1)	$(59.0)
Investing activities..................	(62.8)	(44.4)
Financing activities..................	(5.6)	(22.7)

The $36.9 million decrease in cash used in operating activities was primarily due to a reduction in inventory purchases in 2001 caused by decreased sales results and carry over of inventory from 2000. In addition, cash paid for income taxes decreased primarily due to a reduction in estimated tax payments in 2001 compared to 2000.

Cash used in investing activities is generally expended to open new and expand existing stores. The $18.4 million increase in capital expenditures for the six months ended June 30, 2001 compared to the same period in 2000 was primarily the result of:

- o an increase in the number of stores opened and an increase in the average size of those stores;

- o investments made to improve our supply chain processes; and

- o conversion of Dollar Express stores.

The $17.1 million decrease in cash used in financing activities was primarily the result of the following:

- o We made net repayments of approximately $6.2 million in the first half of 2001 compared to $34.2 million of repayments in the first half of 2000 for Dollar Express's term loan and revolving credit facility and the first principal payment on the senior notes.

o We received $10.6 million less cash pursuant to stock-based compensation plans, which resulted from our decreased stock price in the first half of 2001 compared to the first half of 2000.

At June 30, 2001, our borrowings under our senior notes and bonds were $37.0 million and we had $50.0 million available through our bank facility. Of the $125.0 million available under the Letter of Credit Reimbursement and Security Agreement, approximately $92.8 million was committed to letters of credit issued for routine purchases of imported merchandise.

Revolving Credit Facility and Letters of Credit

Effective March 12, 2001, we entered into a new revolving credit facility with our banks, which provides for a $50.0 million unsecured revolving credit facility to be used for working capital requirements. The facility bears interest at the agent bank's prime interest rate or LIBOR plus a spread, at our option. The facility, among other things, requires the maintenance of specified ratios, restricts the payment of certain distributions and limits certain types of debt we can incur. It terminates on March 11, 2002.

Also, effective March 12, 2001, we entered into a Letter of Credit Reimbursement and Security Agreement that provides $125.0 million for letters of credit, which are generally issued in relation to routine purchases of imported merchandise. The agreement terminates on March 11, 2002.

Operating Leases

Effective March 12, 2001, we entered into an operating lease facility for $165.0 million, of which approximately $93.0 million is committed to the Stockton, Savannah and Briar Creek distribution centers. In addition, approximately $20.0 million is committed for expansion of the Stockton distribution center. This facility replaced the operating lease agreements for our Stockton, Savannah and Briar Creek distribution centers. The termination date of this operating lease facility is March 2006. As a result, the lease expiration date for the Stockton, Savannah and Briar Creek distribution centers is now March 2006. The lease facility, among other things, requires the maintenance of certain specified financial ratios, restricts the payment of certain distributions and limits certain types of debt we can incur.

New Accounting Pronouncements

Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001.

SFAS No. 142, "Goodwill and Other Intangible Assets," establishes accounting standards for intangible assets and goodwill and is effective January 1, 2002. 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 in accordance with SFAS No. 142. SFAS No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." We will evaluate existing goodwill for impairment upon adoption of SFAS No. 142 and will record any transition impairment as a cumulative effect of a change in accounting principle in the consolidated income statements. Because of the extensive effort needed to comply with adopting SFAS No. 142, it is not possible to reasonably estimate the impact of adopting this Statement on our financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized.

Item 3. 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 our 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. However, certain of our interest rate swaps do not qualify for hedge accounting treatment under SFAS No. 133, as amended by SFAS No. 138, because they contain provisions that "knockout" the swap when the variable interest rate exceeds a predetermined rate.

Interest Rate Risk

On April 12, 2001, we entered into a $25.0 million interest rate swap agreement to manage the risk associated with interest rate fluctuations on a portion of our $165.0 million operating lease facility. The swap creates the economic equivalent of a fixed rate lease by converting the variable interest rate to a fixed rate. 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 lease agreement, excluding the credit spread. The interest rate on the swap is subject to adjustment monthly consistent with the interest rate adjustment on the operating lease facility. The swap is effective through March 2006.

The following table summarizes the financial terms of our interest rate swap agreements and their fair values at June 30, 2001:

Hedging Instrument	Receive Variable	Pay Fixed	Knockout Rate	Expiration	Fair Value
$19.0 million interest rate swap	LIBOR	4.88%	7.75%	4/1/09	$ 78,000
$10.0 million interest rate swap	LIBOR	6.45%	7.41%	6/2/04	($425,000)
$5.0 million interest rate swap	LIBOR	5.83%	7.41%	6/2/04	($134,000)
$25.0 million interest rate swap	LIBOR	5.43%	N/A	3/12/06	$133,000

Management cannot predict the changes in fair value of our interest rate swaps.

Foreign Currency Risk

There have been no material changes to our market risk exposures resulting from foreign currency transactions during the six months ended June 30, 2001.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

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

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

We do not believe that any of these matters are individually or in the aggregate material to us.

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

At our Annual Meeting of Shareholders held on May 24, 2001, the following people were re-elected to the Board of Directors:

	Votes For	Votes Withheld
H. Ray Compton	89,027,100	12,213,246
John F. Megrue	97,252,884	3,987,462
Alan L. Wurtzel	98,195,240	3,045,106

As Class III directors, Mr. Compton, Mr. Megrue and Mr. Wurtzel will serve until the Annual Meeting of Shareholders in 2004, or such time as successors are elected and qualified. Macon F. Brock, Jr., Richard G. Lesser, J. Douglas Perry, Thomas A. Saunders, III, and Frank Doczi continued as directors after the meeting and no elections were held with respect to their offices.

Item 5. OTHER INFORMATION.

Grant of Options to Directors

On May 23, 2001, options to purchase 7,500 shares of common stock each were granted to Messrs. Doczi, Wurtzel and Lesser as continuing outside directors, under the terms of the Stock Incentive Plan. In addition, the Compensation Committee of the Board of Directors awarded Mr. Perry 7,500 option shares in his capacity as Chairman of the Board. These options are immediately exercisable and have an exercise price of $24.75 per share.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

None

(b) Reports on Form 8-K.

The following reports on Form 8-K were filed during the second quarter of 2001:

1. Report on Form 8-K, filed April 26, 2001, included the earnings results for the quarter ended March 31, 2001 and an outlook for the remainder of 2001

2. Report on Form 8-K, filed May 29, 2001, included a press release regarding the Annual Meeting of Shareholders held May 24, 2001

Also, in July 2001, we filed one Form 8-K.

1. Report on Form 8-K, filed July 26, 2001, included the earnings results for the three months and six months ended June 30, 2001 and an outlook for the remainder of 2001

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.

DATE: August 13, 2001

DOLLAR TREE STORES, INC.

By: /s/ Frederick C. Coble

Frederick C. Coble
Chief Financial Officer
(principal financial and
accounting officer)