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, 1996

/ / 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.)

2555 ELLSMERE AVENUE
NORFOLK COMMERCE PARK
NORFOLK, VIRGINIA 23513
(Address of principal executives office)

TELEPHONE NUMBER (757) 857-4600
(Registrants 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 9, 1996, there were 25,846,771 shares of the Registrant's Common Stock outstanding.

DOLLAR TREE STORES, INC.
and subsidiaries

INDEX

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

	(Unaudited) June 30, 1996	December 31, 1995
ASSETS		
Current assets:		
Cash and cash equivalents....................	$ 6,358	$ 22,415
Accounts receivable..........................	1,915	380
Merchandise inventories	86,605	40,113
Income taxes receivable......................	439	--
Deferred tax asset	785	720
Prepaid expenses and other current assets ...	3,206	2,392
Total current assets.....................	99,308	66,020
Property and equipment, net..........................	33,152	23,091
Deferred tax asset................................	2,445	2,219
Goodwill, net (note 2)	47,139	--
Other assets, net.................................	575	291
TOTAL ASSETS............................	$182,619	$ 91,621
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable to bank........................	$ 20,900	$ --
Accounts payable	33,756	19,603
Accrued liabilities	9,406	8,939
Income taxes payable.........................	--	8,244
Current installments of obligations under capital leases......................	344	101
Total current liabilities...............	64,406	36,887
Development facility (note 2).....................	41,600	--
Senior subordinated notes.........................	--	7,000
Junior subordinated notes.........................	--	7,000
Obligations under capital leases, excluding current installments.................	1,006	417
Other liabilities.................................	3,650	1,230
Total liabilities.......................	$110,662	$ 52,534
Shareholders' equity:		
Common stock, par value $0.01. Authorized 50,000,000 shares, 25,843,780 issued and outstanding at June 30, 1996 (note 7).......	258	166
Additional paid-in capital...................	31,124	2,980
Retained earnings............................	40,575	35,941
Total shareholders' equity...................	71,957	39,087
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY...	$182,619	$ 91,621

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended June 30, 1996	1995	Six Months Ended June 30, 1996	1995
Net sales	$102,689	$ 62,885	$187,664	$111,618
Cost of sales................	67,030	40,545	122,935	72,820
Gross profit........	35,659	22,340	64,729	38,798
Selling, general, and administrative expenses:				
Operating expenses........	25,480	16,163	49,768	30,581
Depreciation and amortization............	2,593	1,298	4,805	2,473
Total selling, general and administrative expenses................	28,073	17,461	54,573	33,054
Operating income.............	7,586	4,879	10,156	5,744
Interest expense.............	1,555	686	2,624	1,146
Income before income taxes...	6,031	4,193	7,532	4,598
Provision for income taxes...	2,320	1,613	2,898	1,769
Net income..........	$ 3,711	$ 2,580	$ 4,634	$ 2,829
Net income per share	$ 0.13	$ 0.09	$ 0.17	$ 0.10
Weighted average number of common shares and common share equivalents outstanding (note 3):				
Primary	28,063	27,559	27,946	27,447
Fully diluted.......	28,063	27,616	27,972	27,591

See accompanying Notes to Condensed Consolidated Financial Statements

DOLLAR TREE STORES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Six Months Ended June 30, 1996	1995
Cash flows from operating activities:		
Net income.....................................	$ 4,634	$ 2,829
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization................	4,805	2,473
Loss on disposal of property and equipment ...	217	123
Provision for deferred income taxes...........	(291)	(177)
Changes in assets and liabilities increasing (decreasing) cash and cash equivalents, net of effects resulting from purchase of Dollar Bills, Inc.:		
Accounts receivable.......................	(79)	58
Income taxes receivable	(439)	--
Merchandise inventories...................	(29,819)	(20,950)
Prepaid expenses and other current assets..	(629)	(44)
Other assets	422	(28)
Accounts payable..........................	6,358	11,640
Accrued liabilities.......................	(1,947)	(1,685)
Income taxes payable......................	(8,244)	(5,645)
Other liabilities.........................	45	(213)
Total adjustments.......................	(29,601)	(14,448)
Net cash used in operating activities	(24,967)	(11,619)
Cash flows from investing activities:		
Capital expenditures	(8,616)	(5,791)
Proceeds from sale of property and equipment.....	23	32

Payment for purchase of Dollar Bills, Inc., net of cash acquired	(52,209)	--
Net cash used in investing activities	(60,802)	(5,759)
Cash flows from financing activities:		
Repayments of revolving credit facility	--	(2,550)
Proceeds from revolving credit facility	--	9,550
Net proceeds from notes payable to bank	14,000	6,000
Principal payments under capital lease obligations	(124)	(41)
Proceeds from options exercised and purchase of shares under ESPP	2,417	--
Proceeds from public offering	25,819	--
Proceeds from development facility	52,630	--
Repayment of development facility	(11,030)	--
Repayment of senior and junior subordinated notes	(14,000)	--
Net cash provided by financing activities	69,712	12,959
Net decrease in cash and cash equivalents	(16,057)	(4,419)
Cash and cash equivalents at beginning of period	22,415	6,016
Cash and cash equivalents at end of period	$ 6,358	$ 1,597

See accompanying Notes to Condensed Consolidated Financial Statements

DOLLAR TREE STORES, INC.
AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Dollar Tree Stores, Inc. and subsidiaries (the "Company") at June 30, 1996, 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 period. 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, 1995, contained in the Company's Annual Report on Form 10- K. The results of operations for the three- and six-month periods ended June 30, 1996 are not necessarily indicative of the results to be expected for the entire year ending December 31, 1996.

2. ACQUISITION OF DOLLAR BILLS, INC.

On January 31, 1996, the Company acquired all of the outstanding stock of Dollar Bills, Inc. ("Dollar Bills"), formerly known as Terrific Promotions, Inc., which owned and operated 136 discount variety stores under the name Dollar Bill$, a distribution center in the Chicago area and a wholesale division. The acquisition is accounted for by the purchase method of accounting. Amounts shown in these financial statements include the aggregate purchase price and the relative fair values of the assets and liabilities of Dollar Bills. The Company financed the acquisition through borrowings under its development facility with its commercial lenders.

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight line basis over 25 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired organization.

3. STOCK SPLIT AND NET INCOME PER SHARE

In connection with a stock dividend authorized by the Board of Directors, the Company issued one-half share for each outstanding share of Common Stock, payable April 19, 1996 to shareholders of record as of April 5, 1996. All share and per share data in these financial statements and accompanying notes have been retroactively adjusted to reflect this dividend, having the effect of a three-for-two stock split.

Primary net income per share has been computed by dividing net income by the weighted average number of common shares and common share equivalents

outstanding. Common share equivalents include the weighted average number of outstanding stock options and warrants after applying the treasury method. The market price used in applying the treasury method was $15.00 per share, restated to $10.00 per share due to the stock split, through March 6, 1995 and the closing market price of the stock at the end of each week thereafter.

The fully diluted computation was based on the greater of the average market price of the stock at the end of each week in the period or the market price of the stock at the end of the period. Net income per share was the same using either primary or fully diluted shares and share equivalents. All amounts have been adjusted to reflect the stock split.

4. STOCK OPTION PLAN, STOCK INCENTIVE PLAN, EMPLOYEE STOCK PURCHASE PLAN AND UNATTACHED WARRANTS

The Company maintains a stock option plan ("SOP") which was established on December 16, 1993 and a stock incentive plan ("SIP") which was established on January 1, 1995. No additional shares may be granted under the SOP and, under the terms of the SIP, options for no more than 270,000 shares of common stock may be granted in any calendar year.

At June 30, 1996 and 1995, options for the following numbers of shares (restated for the stock split) were outstanding under each plan:

PLAN	Options for Shares Outstanding at June 30, 1996	June 30, 1995	Exercise Price/Range
SOP..........	367,041	615,672	$ 2.90
SIP..........	477,841	180,000	$10.00 - 33.13

The options above include options for 230,540 shares, net of lapses and cancellations, granted during the second quarter of 1996 and 22,500 shares granted during the second quarter of 1995 which are not included in the earnings per share calculation.

On January 1, 1995, the Company also established The Dollar Tree Stores, Inc. Employee Stock Purchase Plan (the "ESPP"). The Company reserved 225,000 shares of common stock for future issuance under the ESPP. The ESPP enables eligible employees, as defined in the ESPP, to buy shares of common stock for 85% of fair market value on the first day or the last day of the applicable offering period, whichever is lower. As of August 9, 1996, 6,845 shares (post-split) have been purchased under the ESPP.

Additionally, in 1993 and 1994, the Company issued unattached warrants to purchase a total of 2,482,178 shares of Common Stock to certain shareholders. These warrants carry an exercise price of $1.93 and may be exercised upon the occurrence of certain events.

The Company adopted the provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as of January 1, 1996.

5. REGISTRATION STATEMENT FILED ON FORM S-3

The Company sold 750,000 shares of Common Stock on June 10, 1996, pursuant

to a registration statement filed on Form S-3 under the Securities Act of 1933. In connection with this offering, the Company received approximately $25.3 million, net of estimated offering expenses. The Company used the proceeds of the offering to repay its 9% Senior and Junior Subordinated Notes and pay down its development facility (see Note 2).

6. DOLLAR TREE STORES, INC. AND SUBSIDIARIES AND DOLLAR BILLS INC. UNAUDITED CONDENSED CONSOLIDATED PROFORMA INCOME STATEMENT

The following unaudited pro forma financial information of the Company is based on the historical Consolidated Financial Statements of the Company for the year ended December 31, 1995 and for the six months ended June 30, 1996 adjusted to give effect to the Company's acquisition of Dollar Bills on January 31, 1996. The unaudited pro forma condensed consolidated income statements for the year ended December 31, 1995 and the six months ended June 30, 1996 give effect to the transactions described as if they had occurred on January 1, 1995 and

January 1, 1996, respectively. The pro forma adjustments are based upon currently available information and upon certain assumptions that management of the Company believes are reasonable. Final purchase adjustments may differ from the pro forma adjustments herein. The pro forma financial information is presented for informational purposes and does not purport to represent what the Company's actual results of operations would have been if the transaction described had been consummated on January 1, 1995 (for the year ended December 31, 1995) or on January 1, 1996 (for the six months ended June 30, 1996).

The pro forma financial information should be read in conjunction with the related Notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements of the Company and the Notes thereto and the Financial Statements of Dollar Bills and the Notes thereto incorporated by reference.

The acquisition of Dollar Bills has been accounted for by the purchase method of accounting. Accordingly, the Company established new accounting basis for the assets and liabilities of Dollar Bills based upon the relative fair values thereof and the aggregate purchase price paid by the Company. These values are reflected in the Company's June 30, 1996 condensed consolidated balance sheet.

The unaudited pro forma condensed consolidated income statements do not purport to be indicative of the results that would have occurred had the transaction taken place at the beginning of the period presented or of future results.

<TABLE>
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Unaudited Pro Forma Condensed Consolidated Income Statements
(In thousands except per share data)

	For the Year Ended December 31, 1995				For the Six Months Ended June 30, 1996			
	The Company	Dollar Bills	Pro Forma Adjustments	Pro Forma	The Company	Dollar Bills(1)	Pro Forma Adjustments	Pro Forma
<S>	<C>	<C>		<C>	<C>	<C>	<C>	<C>
Net sales..........	$300,229	$103,850		$404,079	$187,664	$ 6,482		$194,146
Gross profit.......	112,679	27,497		140,176	64,729	1,803		66,532
Selling, general and administrative expenses.........	75,967	22,201	(4,004)(2)	96,144	54,573	2,613	(529)(2)	56,816
			1,980 (3)				159 (3)	
Operating income (loss)...........	36,712	5,296		44,032	10,156	(810)		9,716
Interest expense...	2,618	505	3,850 (4)	6,973	2,624	50	324 (4)	2,998
Income (loss) before income taxes.....	34,094	4,791		37,059	7,532	(860)		6,718
Provision for income taxes.....	13,127	178	963 (5)	14,268	2,898	(26)	(288)(5)	2,584
Net income (loss)..	$ 20,967	$ 4,613		$ 22,791	$ 4,634	$ (834)		$ 4,134
Net income per share(6).....	$ 0.76			$ 0.83	$ 0.17			$ 0.15

Weighted average number of common shares and common share equivalents outstanding:.....	27,589		27,589	27,946	27,946
	========		========	========	========

</TABLE>

(1)Represents January 1996 results of Dollars Bills. The Company acquired Dollars Bills on January 31, 1996 and accordingly the Company's income statement for the six months ended June 30, 1996 includes the results of the acquired business beginning February 1, 1996.

(2) Represents the elimination of duplicative operating costs associated with Dollar Bills corporate headquarters and distribution facility.

(3) Represents amortization of goodwill recognized in connection with the acquisition of Dollar Bills which is being amortized by the Company over a 25 year period.

(4) Represents interest expense related to the borrowings under the Company's development facility used to fund the acquisition.

(5) Represents income taxes related to the conversion of Dollars Bills to

a C Corporation at an assumed effective tax rate of 38.5%.

(6) Net income per common share and pro forma income per common share is computed by dividing net income and pro forma net income by the weighted average number of common shares and common share equivalents outstanding. Common share equivalents include all outstanding stock options and warrants after applying the treasury stock method.

NOTE 7. INCREASE IN AUTHORIZED SHARES OF COMMON STOCK

On July 23, 1996, the shareholders of the Company approved an increase in authorized shares of Common Stock from 50,000,000 to 100,000,000 shares.

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

THE THREE MONTHS ENDED JUNE 30, 1996 AND 1995

RESULTS OF OPERATIONS AND GENERAL COMMENTS

Net sales increased $39.8 million, or 63.3%, to $102.7 million for the three months ended June 30, 1996, from $62.9 million for the three months ended June 30, 1995. Of this increase, (i) approximately 60.8%, or $24.2 million , was attributable to the acquisition of 136 Dollar Bill$ stores on January 31, 1996, (ii) approximately 37.1%, or $14.8 million, was attributable to stores opened in 1995 and 1996 which are not included in the Company's comparable store net sales calculation, and (iii) approximately 2.1%, or $0.8 million, was attributable to comparable store net sales growth, which represented a 1.5% increase over comparable store net sales in the corresponding quarter of the prior period. Dollar Bill$ stores are not included in the comparable store net sales calculation. Because substantially all the Company's products sell for $1.00, the increase in comparable store net sales was a direct result of increased unit volume. The Company opened 29 new stores and closed three stores during the second quarter of 1996 compared to opening 30 new stores and closing two stores during the second quarter of 1995.

Management anticipates that the primary source of future sales growth will be new store openings and, to a lesser degree, sales increases from expanded and relocated stores and comparable store net sales increases. Although the Company has experienced significant increases in comparable store net sales historically, management expects that any increases in comparable store net sales in the future will be smaller than those experienced historically.

Gross profit, which consists of net sales less cost of sales (including distribution and certain occupancy costs), increased $13.3 million, or 59.6%, to $35.7 million in the second quarter of 1996 from $22.3 million in the second quarter of 1995. As a percentage of net sales, gross profit decreased to 34.7% from 35.5%, primarily due to increased sales of domestic and consumable products, which generally carry a lower merchandise margin, partially offset by decreases in freight costs, markdowns and shrinkage. Management expects that the Company's product mix will continue to contain a higher proportion of domestic products, due to the addition of Dollar Bill$ stores and the introduction of more domestic goods in existing stores.

Selling, general and administrative expenses, which include operating expenses and depreciation and amortization, increased $10.6 million, or 60.8%,

to $28.1 million in the second quarter of 1996 from $17.5 million in the second quarter of 1995, and decreased as a percentage of net sales to 27.3% from 27.8% during the same period. This decrease resulted primarily from hourly payroll costs savings, partially offset by the amortization of goodwill recognized in connection with the purchase of all of the outstanding stock of Dollar Bills, Inc. During the second quarter of 1996, the Company's operating expenses increased by approximately $0.7 million due to transactional costs and expenses incurred in connection with the Dollar Bills acquisition. Amortization of goodwill relating to the acquisition amounted to $0.5 million for the second quarter of 1996.

Operating income increased $2.7 million, or 55.5%, to $7.6 million for the second quarter of 1996 from $4.9 million for the comparable period in 1995, and decreased as a percentage of net sales to 7.4% from 7.8% during the same period for the reasons noted above.

INTEREST EXPENSE

Interest expense increased $0.9 million in the second quarter of 1996 compared to the second quarter of 1995 to $1.6 million from $0.7 million during the same period. This increase is primarily a result of borrowings under the Company's development facility in connection with the Dollar Bills acquisition, and the amortization of deferred financing costs relating thereto.

THE SIX MONTHS ENDED JUNE 30, 1996 AND 1995

RESULTS OF OPERATIONS AND GENERAL COMMENTS

Net sales increased $76.0 million, or 68.1%, to $187.7 million for the six months ended June 30, 1996, from $111.6 million for the six months ended June 30, 1995. Of this increase, (i) approximately 52.6%, or $40.0 million , was attributable to the acquisition of 136 Dollar Bill$ stores on January 31, 1996, (ii) approximately 38.8%, or $29.5 million, was attributable to stores opened in 1995 and 1996 which are not included in the Company's comparable store net sales calculation, and (iii) approximately 8.6%, or $6.5 million, was attributable to comparable store net sales growth, which represented a 6.1% increase over comparable store net sales in the corresponding quarter of the prior period. Dollar Bill$ stores are not included in the comparable store net sales calculation. Because substantially all the Company's products sell for $1.00, the increase in comparable store net sales was a direct result of increased unit volume. The Company opened 53 new stores and closed three stores during the first six months of 1996 compared to opening 45 new stores and closing two stores during the first six months of 1995.

Gross profit, which consists of net sales less cost of sales (including distribution and certain occupancy costs), increased $25.9 million, or 66.8%, to $64.7 million in the first six months of 1996 from $38.8 million in the first six months of 1995. As a percentage of net sales, gross profit decreased to 34.5% from 34.8%, primarily due to increased sales of domestic and consumable products, which generally carry a lower merchandise margin, partially offset by decreases in freight costs, markdowns and shrinkage and

lower occupancy costs as a percentage of net sales. Management expects that the Company's product mix will continue to contain a higher proportion of domestic products, due to the addition of Dollar Bill$ stores and the introduction of more domestic goods in existing stores.

Selling, general and administrative expenses, which include operating expenses and depreciation and amortization, increased $21.5 million, or 65.1%, to $54.6 million in the first six months of 1996 from $33.1 million in the first six months of 1995, and decreased as a percentage of net sales to 29.1% from 29.6% during the same period. This decrease resulted primarily from hourly payroll costs savings, partially offset by the amortization of goodwill recognized in connection with the purchase of Dollar Bills, Inc. During the first six months of 1996, the Company's operating expenses increased by approximately $2.0 million due to transactional costs and expenses incurred in connection with the Dollar Bills acquisition. Amortization of goodwill relating to the acquisition amounted to $0.8 million for the first six months of 1996.

Operating income increased $4.4 million, or 76.8%, to $10.2 million for the first six months of 1996 from $5.7 million for the comparable period in 1995, and increased as a percentage of net sales to 5.4% from 5.1% during the same period for the reasons noted above.

INTEREST EXPENSE

Interest expense increased $1.5 million in the first six months of 1996 compared to the first six months of 1995 to $2.6 million from $1.1 million during the same period. This increase is primarily a result of borrowings under the Company's development facility in connection with the Dollar Bills acquisition, and the amortization of deferred financing costs relating thereto.

LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements result primarily from capital expenditures related to new store openings and working capital requirements related to new and existing stores. The Company's working capital requirements for existing stores are seasonal in nature and typically reach their peak near the end of the third and the beginning of the fourth quarter of the year. Historically, the Company has met its seasonal working capital requirements for its existing stores and funded its store expansion program from internally generated funds and borrowings under its credit facilities.

In June, 1996, the Company and certain shareholders completed a public offering; a total of 3,250,000 shares of Common Stock were sold, of which the Company sold 750,000 newly issued shares. Total proceeds to the Company were approximately $25.3 million, net of offering expenses. The Company used approximately $14 million of the net proceeds to repay its 9% Subordinated Notes (both Senior and Junior) and approximately $11.3 million to pay down its development facility.

During the first six months of 1996 and 1995, net cash used in operations

was $25.0 million and $11.6 million, respectively, primarily used to build inventory levels. During the first six months of 1996 and 1995, net cash used in investing activities was $60.8 million and $5.8 million, respectively, the increase consisting primarily of payment for the acquisition of Dollar Bills, Inc. in 1996. Net cash provided by financing activities was $69.7 million and $13.0 million during the first six months of 1996 and 199, respectively, the increase primarily attributable to borrowings incurred to fund the acquisition of Dollar Bills in January 1996 and to capital raised during a public offering completed in June, 1996.

The Company's borrowings under its bank facilities were $62.5 million at June 30, 1996, and $13.0 million at June 30, 1995. There were no amounts outstanding at December 31, 1995. Under the Company's bank facilities, an additional $57.5 million is available at June 30, 1996.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On June 28, 1996, the Circuit Court of Cook County, Illinois, denied the Company's motion to dismiss the lawsuit previously filed against the Company by the former shareholders of Dollar Bills and a corporation they control ("Plaintiffs"). On July 23, 1996, the Plaintiffs filed a motion to voluntarily dismiss the action in the Circuit Court of Cook County, Illinois, which the Court granted. On July 26, 1996, the Plaintiffs amended their complaint in the Federal Court alleging direct violations by the Company and one of its employees of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder in addition to the violations previously alleged in Federal Court against the Company. Under the new securities law claim, Plaintiffs seek to recover exemplary and punitive damages in an amount to be determined at trial. The Company emphatically denies the Plaintiffs' claims and will vigorously defend itself in this matter.

This litigation is in its preliminary stages and discovery has only recently commenced; however, based on management's understanding of the facts (which facts are contested by the Plaintiffs) and the advice of its litigation counsel for this matter in reliance on such facts, the Company believes that it is unlikely that the Plaintiffs will ultimately prevail on the merits of this litigation. Accordingly, the Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's results of operations or financial condition. Nevertheless, particularly in light of the contested factual circumstances, there can be no assurances regarding the ultimate outcome of this litigation or that this litigation will not have a material adverse effect on the Company's results of operations or financial condition. In any event, the litigation has diverted, and is expected to continue to divert, the efforts and attention of the Company's management.

In the second quarter of 1996, the Company terminated its relationship with a Hong Kong trading company that accounted for approximately 6% of the Company's purchases in 1995. The trading company had obtained payment on a number of letters of credit issued on the Company's behalf by falsely claiming

that conforming goods had been shipped, when in fact the trading company had either shipped non-conforming goods or empty containers. During the second quarter of 1996, the Company increased its previously established reserves by approximately $400,000 for potential losses arising from the letters of credit upon which the trading company has obtained payment. The Company has canceled all outstanding purchase orders with the trading company. In addition to the payments already obtained by the trading company there remains approximately $300,000 in undrawn irrevocable letters of credit issued to the trading company with respect to the canceled orders which have not yet reached their expiry date. The Company has taken extensive measures, including legal action against the trading company in the United States, which it believes have substantially limited its exposure with respect to the remaining undrawn letters of credit. The Company has also initiated an involuntary bankruptcy-type proceeding against the trading company in Hong Kong. Although there can be no assurances in this regard, the Company believes it is unlikely that its losses in connection with this matter will significantly exceed its reserves.

Additionally, the Company is a party to ordinary routine litigation and proceedings incidental to its business, including certain matters which may occasionally be asserted by the U.S. Consumer Product Safety Commission, none of which is individually or in the aggregate material to the Company.

ITEM 2. CHANGES IN SECURITIES

On July 23, 1996, the Company's shareholders approved an amendment to the Company's Third Restated Articles of Incorporation increasing the number of shares of Common Stock which the Company is authorized to issue from 50 million to 100 million. See "SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS" below. Articles of Amendment containing the amendment approved by the shareholders became effective with the Virginia State Corporation Commission on August 7, 1996. The amendment increased the number of authorized but unissued shares of the Company's Common Stock but had no material effect on outstanding shares.

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

At the Company's Annual Meeting of Shareholders held on July 23, 1996, the following individuals were elected to the Board of Directors:

	Votes For	Votes Withheld
Macon F. Brock, Jr.	24,142,023	141,716
Allan Karp	24,141,903	141,836
Frank Doczi	24,141,340	142,399
Alan Wurtzel	24,142,955	140,784

J. Douglas Perry, John F. Megrue, H. Ray Compton, and Thomas A. Saunders, III, continue as directors after the meeting and no elections were held with respect to their offices.

In addition, the following proposals were approved at the Company's Annual Meeting:

1. Amendment to the Company's Articles of Incorporation to increase the number of authorized shares of Common Stock to 100,000,000.

Affirmative Votes	Negative Votes	Votes Withheld
24,070,000	135,857	77,882

2. Amendment to the Company's Employee Stock Purchase Plan allowing employees of subsidiaries to participate.

Affirmative Votes	Negative Votes	Votes Withheld
24,188,327	18,506	76,906

ITEM 5. OTHER INFORMATION

Registered Public Offering

On June 14, 1996, the Company and certain shareholders completed a public offering of Common Stock pursuant to an effective registration statement (the "June Offering"). A total of 3,250,000 shares were sold, of which the Company sold 750,000 shares and certain shareholders sold 2,500,000 shares, at a price to the public of $36.00 per share. After deducting for the underwriters discount and expenses of the offering, the total proceeds to the Company were approximately $25.3 million.

The Company used approximately $14 million of the net proceeds from the June Offering to repay its 9% Senior Subordinated Notes due 1997 and its 9% Junior Subordinated Notes due 1997 and approximately $11.3 million to reduce the outstanding balance under the Company's development facility. See Notes 2 and 5 of the Notes to Condensed Consolidated Financial Statements.

Grant of Options

On April 24, 1996, options for 231,575 shares of Common Stock were granted under the Company's Stock Incentive Plan ("SIP"). An additional 2,000 shares were granted in June, 1996. The options vest over a three-year period and have exercise prices ranging from $31.00 to $33.125 per share.

On July 22, 1996, options to purchase 4,000 shares of Common Stock each were granted to Frank Doczi and Alan Wurtzel as continuing directors, under the terms of the SIP. These options are immediately exercisable and have an exercise price of $28.25 per share.

ITEM 6. EXHIBITS AND REPORT ON FORM 8-K

(a) Exhibits

3.1 Third restated Articles of Incorporation of Dollar Tree Stores, Inc., as amended

* 10.1 Technical Clarification to Dollar Tree Stores, Inc. Employee Stock Purchase Plan executed May 3, 1996.

10.2 Second Amendment to Credit Agreement, dated June 17, 1996, by and among the Company, Dollar Tree Distribution, Inc., Dollar Tree Management, Inc., Nationsbank, N.A., Signet Bank, Crestar Bank, and First National Bank of Boston.

10.3 Letter Agreement, dated June 28, 1996, by and among the Company, Dollar Tree Distribution, Inc., Dollar Tree Management, Inc., Nationsbank, N.A., Signet Bank, Crestar Bank, and First National Bank of Boston, regarding certain changes to credit lines.

* Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1996, filed with the Securities and Exchange Commission.

(B) Reports on Form 8-K

Form 8-K/A, filed on April 12, 1996, amending the Form 8-K filed on February 14, 1996, was previously reported in the Company's Form 10-Q for the period ended March 31, 1996. The Form 8-K/A included information required under Item 7 of the Form 8-K, in relation to the acquisition of Dollar Bills, Inc.

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 14, 1996

DOLLAR TREE STORES, INC.

By: /s/ H. Ray Compton

   H. Ray Compton
    Executive Vice President and
    Chief Financial Officer
    (principal financial and accounting officer)

EXHIBIT 3.1

THIRD RESTATED ARTICLES OF INCORPORATION OF DOLLAR TREE STORES, INC. (as amended)

ARTICLE I
NAME

The name of the Corporation is DOLLAR TREE STORES, INC.

ARTICLE II
PURPOSES AND POWERS

The purpose for which the Corporation is organized is to engage in any lawful business not required by the Virginia Stock Corporation Act to be stated in the Articles of Incorporation.

The Corporation shall have all of the corporate powers of any character which are not prohibited by law or required to be stated in the Articles of Incorporation.

ARTICLE III
CAPITAL STOCK

A. Authorized Shares. The aggregate number of shares that the Corporation shall have authority to issue is Ten Million (10,000,000) shares of Preferred Stock, One Cent ($.01) par value per share, and One Hundred Million (100,000,000) shares of Common Stock, One Cent ($.01) par value per share.

B. Preferred and Common Stock. The designations, preferences, voting powers and relative, participating, optional other special rights of the Preferred Stock and the Common Stock, and the qualifications, limitations and restrictions of such preferences and rights, shall be in accordance with Sections B(1) through B(6) of this Article III.

1. Issuance of Preferred Stock. The Preferred Stock may be issued from time to time, in one or more series, each of which series shall be designated by such appropriate designations as may be stated in such amendment or amendments to these Articles of Incorporation providing for the issuance of the stock of such series as may be adopted by the Board of Directors from time to time, a copy of which amendment or amendments shall have been filed with and made effective (without shareholder approval) by the State Corporation Commission of Virginia as required by law. Subject to the provisions hereof, all shares of any one series shall be alike in every particular and except for the relative rights and preferences as to which there may be variations between different series as set forth in this Article III, all shares of Preferred Stock shall be alike in every particular. The Board of Directors shall have power and authority, subject to all the provisions of these Articles and of the Virginia Stock Corporation Act, to state and determine, in the amendment or amendments providing for the issue of each series of Preferred Stock, the number of shares of each such series authorized to be issued and the preferences and relative, participating, optional and other rights pertaining to each such series, and the qualifications, limitations or restrictions thereof, including, full power and authority to determine, as to the Preferred Stock of each such series (a) the rate of dividend, the time of payment, whether dividends shall be cumulative and if so, the dates from which

dividends shall be cumulative, and the extent of participation rights, if any, (b) any right to vote with holders of shares of any other series or class and any right to vote as a class, either generally or as a condition to specified corporate action, and the number of votes, if any, to be exercised for each share, (c) the price at and the terms and conditions on which shares may be redeemed, (d) the amount payable upon shares in event of involuntary liquidation, (e) the amount payable upon shares in event of voluntary liquidation, (f) sinking fund provisions for the redemption or purchase of shares, (g) the terms and conditions on which shares may be converted if the shares of any series are issued with the privilege of conversion, and (h) any other designations, rights, preferences or limitations that are now or hereafter permitted by law and are not inconsistent with the provisions of this Section B(1).

2. Dividends. The holders of the Preferred Stock shall be entitled to receive dividends as and when declared by the Board of Directors out of funds legally available therefor. Dividends on the Preferred Stock of each series shall be at such rates or to such extent, payable in such manner, under such conditions and on such dates as shall be stated in the amendment to the Articles of Incorporation providing for the issuance of each such series of Preferred Stock. The holders of Common Stock shall be entitled to receive such dividends as may from time to time be declared by the Board of Directors out of funds legally available therefor, subject to the rights of the series of Preferred Stock outstanding from time to time. Dividends on Preferred Stock shall be in preference to dividends on Common Stock, unless otherwise determined by the Board in the amendment or amendments providing for an issue of Preferred Stock.

3. Liquidation. In the event of any voluntary or involuntary

liquidation, dissolution or winding up of the Corporation, there shall be paid to the holders of shares of Preferred Stock of each series the fixed amount per share payable in the event of liquidation, dissolution or winding up of the Corporation, stated in the amendment of the Articles of Incorporation providing for the issuance of each such series of Preferred Stock, plus the unpaid dividends accrued thereon, if such dividends be cumulative, before any sum shall be paid to, or any assets distributed among, the holders of the Common Stock, but the holders of the Preferred Stock shall be entitled to no further payment or distribution than as provided above. If amounts payable to holders of shares of Preferred Stock on liquidation, dissolution or winding up are not paid in full, the shares of Preferred Stock shall share in any distribution of assets (other than by way of dividends) on a basis determined by the Board in the amendment or amendments providing for the issue of each series of Preferred Stock, or, in the absence of such determination, the shares of Preferred Stock shall share ratably on a share for share basis in accordance with the sums which would be payable in such distribution if all sums payable were discharged in full. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of the Common Stock shall be entitled, in proportion to the number of shares of Common Stock so held, to payment or distribution of any assets remaining after all required payments to holders of Preferred Stock. A liquidation, dissolution or winding up of the Corporation, as such terms are used in this Section B(3), shall not be deemed to be occasioned by or to include any consolidation or merger of the Corporation with or into any other corporation or corporations or a sale, lease or conveyance of all or part of

its assets.

4. Redemption. The Preferred Stock of each series shall be subject to redemption if so provided, and at the prices, and upon the terms and conditions stated, in the amendment to the Articles of Incorporation providing for the issuance of each such series of Preferred Stock.

5. Voting. The holders of each series of the Preferred Stock shall have no voting power except as may be required by law, or as may be provided, and upon the terms and conditions stated, in the amendment to the Articles of Incorporation providing for the issuance of each such series of Preferred Stock. Except as set forth hereinabove, the entire and exclusive voting rights are vested in the holders of the Common Stock. Each holder of the Common Stock shall have one vote for each share held by him, and each holder of any series of Preferred Stock when and if entitled to vote shall also have such votes for each share held by him as provided in the amendment to the Articles of Incorporation providing for the issuance of each such series of Preferred Stock.

6. Pre-emptive Rights. No holder of any share of capital stock of the Corporation, whether now or hereafter authorized or outstanding, shall have any pre-emptive or preferential right to purchase or subscribe to purchase i) any shares of stock of any class of the Corporation or other security that the Corporation may determine to issue, whether share of stock or other security to be issued is now or hereafter authorized, ii) any warrants, rights or options to purchase any stock or other security , or iii) any obligation convertible into any such stock or other security or into warrants, rights or options to purchase any such stock or other security.

ARTICLE IV
DIRECTORS

The number of directors shall be fixed by the By-Laws. In the absence of such a provision in the By-Laws, the number of directors shall be nine. Upon the effective date of these Third Restated Articles of Incorporation, the Board of Directors shall divide the directors of the corporation into three classes as nearly equal in number as possible. The term of office of the first class of directors shall expire at the first annual meeting of stockholders after the initial election dividing directors into such classes, that of the second class shall expire at the second annual meeting after such election, and that of the third class at the third annual meeting after such election. At each annual meeting of stockholders, successors to the class of directors whose terms shall then expire and any other nominees for election as a director of such class shall be elected to hold office until the third succeeding annual meeting. If the number of directors is changed, any newly created directorships or decrease in directorships shall be so apportioned among the classes by the Board of Directors as to make all classes as nearly equal in number as possible. Vacancies resulting from an increase in the number of directors may be created and filled by action of the Board of Directors between annual meetings of stockholders. A director may be removed only if the number of votes cast to remove the director constitutes more than two-thirds (2/3) of the votes entitled to be cast at an election of directors.

ARTICLE V
INDEMNIFICATION

A. Definitions. For purposes of this Article, the following definitions shall apply:

"Act" means the Virginia Stock Corporation Act, as it exists on the date hereof or is hereafter amended, or any successor or comparable provision of law if such Act is repealed.

"eligible person" means a person who is or was a director or officer of the Corporation, or while serving as such director or officer, is or was serving at the request of the Corporation as a director, trustee, partner or officer of another corporation, affiliated corporation, partnership, joint venture, trust, employee benefit plan or other enterprise. A person shall be considered to be serving an employee benefit plan at the Corporation's request if his duties to the Corporation also impose duties on, or otherwise involve services by, him to the plan or to participants in or beneficiaries of the plan.

"expenses" includes, without limitation, counsel fees, expert witness fees, and costs of investigation, litigation and appeal, as well as any amounts expended in asserting a claim for indemnification.

"liability" means the obligation to pay a judgment, settlement, penalty, fine (including any excise tax assessed with respect to any employment benefit plan), or reasonable expenses incurred with respect to a proceeding.

"party" includes, without limitation, an individual who was, is, or is threatened to be made a named defendant or respondent in a proceeding.

"proceeding" means any threatened, pending, or completed action, suit, or proceeding whether civil, criminal, administrative, or investigative and whether formal or informal.

B. Indemnification of Officers and Directors.

1. To the full extent that the Act permits the limitation or elimination of the liability of directors and officers, no director or officer of the Corporation made a party to any proceeding shall be liable to the Corporation or its stockholders for monetary damages arising out of any transaction, occurrence or course of conduct, whether occurring prior or subsequent to the effective date of this Article V.

2. To the full extent permitted by the Act, the Corporation shall indemnify any eligible person who was or is a party to any proceeding, including a proceeding brought by or in the right of the Corporation or brought by or on behalf of the stockholders of the Corporation, against any liability incurred by him in connection with such proceeding unless he engaged in willful misconduct or a knowing violation of the criminal law. To the same extent, the Board of Directors is hereby empowered, by a majority vote of a quorum of disinterested directors, to enter into a contract to indemnify any director or officer against liability and/or to advance or reimburse his expenses in respect to any proceedings arising from any act or omission, whether occurring before or after the execution of such contract.

3. The provisions of this Article V shall be applicable to all proceedings commenced after it becomes effective, arising from any act or omission, whether occurring before or after such effective date. No amendment or repeal of this Article V shall impair or otherwise diminish the rights

provided under this Article V (including those created by contract) with respect to any act or omission occurring prior to such amendment or repeal. The Corporation shall promptly take all such actions and make all such determinations and authorizations as shall be necessary or appropriate to comply with its obligation to make any indemnity against liability, or to advance any expenses, under this Article V and shall promptly pay or reimburse all reasonable expenses, including attorneys' fees, incurred by any such director or officer in connection with such actions and determinations or proceedings of any kind arising therefrom.

4. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the director or officer did not meet any standard of conduct that is a prerequisite to the limitation or elimination of liability provided in Section B(1) of this Article V or to his entitlement to indemnification under Section B(2) of this Article V.

5. No indemnification under Section B(2) of this Article V (unless ordered by a court of law) shall be made by the Corporation without a determination in the specific case that indemnification is proper in the circumstances because the proposed indemnitee has met the standard of conduct that is a prerequisite to his entitlement to indemnification under Section B(2) of this Article V.

The determination shall be made:

(a) By the Board of Directors by a majority vote of a quorum consisting of directors not at the time parties to the proceeding;

(b) If a quorum cannot be obtained under subsection (a) of this Section

B(5), by majority vote of a committee duly designated by the Board of Directors (in which designation directors who are parties may participate), consisting solely of two or more directors not at the time parties to the proceeding;

(c) By special legal counsel:

i) selected by the Board of Directors in the manner prescribed in subsection (a) of this Section B(5) or its committee in the manner prescribed in subsection (b) of this Section B(5); or

ii) if a quorum of the Board of Directors cannot be obtained under subsection (a) of this Section B(5) and a committee cannot be designated under subsection (b) of this Section B(5), selected by a majority vote of the full Board of Directors including directors who are parties; or

(d) By the stockholders, but shares owned by or voted under the control of directors who are at the time parties to the proceeding may not be voted on the determination.

Authorization of indemnification and evaluation as to reasonableness of expenses shall be made in the same manner as the determination that indemnification is appropriate, except that if the determination is made by special legal counsel, such authorizations and evaluations shall be made by those entitled under subsection (c) of this Section B(5) to select counsel.

Notwithstanding the foregoing, in the event there has been a change in the composition of a majority of the Board of Directors after the date of the alleged act or omission with respect to which indemnification, an advance or reimbursement is claimed, any determination as to such indemnification,

advance or reimbursement shall be made by special legal counsel agreed upon by the Board of Directors and the proposed indemnitee. If the Board of Directors and the proposed indemnitee are unable to agree upon such special legal counsel, the Board of Directors and the proposed indemnitee each shall select a nominee, and the nominees shall select such special legal counsel.

6. (a) The Corporation shall pay for or reimburse the reasonable expenses incurred by a director or officer (and may do so for a person referred to in Section B(7) of this Article V) who is a party to a proceeding in advance of final disposition of the proceeding or the making of any determination under Section B(2) of this Article V if the director, officer or person furnishes to the Corporation:

i) a written statement, executed personally, of his good faith belief that he has met the standard of conduct that is a prerequisite to his entitlement to indemnification under Section B(2) of this Article V; and

ii) a written undertaking, executed personally or on his behalf, to repay the advance if it is ultimately determined that he did not meet such standard of conduct.

(b) The undertaking required by paragraph (ii) of subsection (a) of this Section B(6) shall be an unlimited general obligation but need not be secured and may be accepted without reference to financial ability to make repayment.

(c) Authorizations of payments under this Section B(6) shall be made by the persons specified in Section B(5) of this Article V.

7. The Board of Directors is hereby empowered, by majority vote of a quorum consisting of disinterested directors, to cause the Corporation to indemnify or contract to indemnify any person not specified in Section B(2) of this Article V who was, is or may become a party to any proceeding, by reason of the fact that he is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, to the same or a lesser extent as if such person were specified as one to whom indemnification is granted in Section B(2) of this Article V. The provisions of Sections B(3) through B(6) of this Article V shall be applicable to any indemnification provided pursuant to this Section B(7).

8. The Corporation may purchase and maintain insurance to indemnify it against the whole or any portion of the liability assumed by it in accordance with this Article V and may also procure insurance, in such amounts as the Board of Directors may determine, on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against any liability asserted against or incurred by him in any such capacity or arising from his status as such, whether or not the Corporation would have power to indemnify him against such liability under the provisions of this Article V.

9. Every reference herein to directors, officers, employees or agents shall include former directors, officers, employees and agents and their respective heirs, executors and administrators. The indemnification hereby provided and provided hereafter pursuant to the power hereby conferred by this

Article V on the Board of Directors shall not be exclusive of any other rights to which any person may be entitled, including any right under policies of insurance that may be purchased and maintained by the Corporation or others, with respect to claims, issues or matters in relation to which the Corporation would not have the power to indemnify such person under the provisions of this Article V. Nothing herein shall prevent or restrict the power of the Corporation to make or provide for any further indemnity, or provisions for determining entitlement to indemnity, or provisions for indemnification agreements, By-Laws, or other arrangements (including, without limitation, creation of trust funds or security interests funded by letters of credit or other means) approved by the Board of Directors (whether or not any of the directors of the Corporation shall be a party to or beneficiary of any such agreements, By-Laws or arrangements); provided, however, that any provision of such agreements, By-Laws or other arrangements shall not be effective if and to the extent that it is determined to be contrary to this Article V or applicable laws of the Commonwealth of Virginia, but other provisions of any such agreements, By-Laws or other arrangements shall not be affected by any such determination.

10. Each provision of this Article V shall be severable, and an adverse determination as to any such provision shall in no way affect the validity of any other provision.

ARTICLE VI
AMENDMENTS

Adoption of an amendment to Article IV or this Article VI of these Third Restated Articles of Incorporation, or Articles II(3), II(5), III(2), III(3), or III(4) of the Second Restated By-Laws requires, of each voting group entitled to vote thereon, approval of the amendment by more than two-thirds of all the votes entitled to be cast by that voting group. Adoption of all other amendments to the Articles of Incorporation requires, of each voting group entitled to vote thereon, approval of the amendment by a majority of a quorum of the voting group. Nothing in this Article VI shall be construed to require shareholder approval of an amendment or amendments to these Articles of Incorporation providing for the issuance of any series of Preferred Stock in accordance with Article III(B) of these Articles of Incorporation.

ARTICLE VII
MISCELLANEOUS

A. The Corporation elects not to be governed by Article 14 of the Act, entitled "Affiliated Transactions."

B. The Corporation elects not to be governed by Article 14.1 of the Act, entitled "Control Share Acquisitions," and such Article shall not apply to acquisitions of shares of the Corporation.

NATIONSBANK, N.A.
CRESTAR BANK
SIGNET BANK
THE FIRST NATIONAL BANK OF BOSTON

June 28, 1996

Mr. H. Ray Compton
Dollar Tree Stores, Inc.
2555 Ellsmere Road
Norfolk, VA 23513

Re: Dollar Tree Distribution, Inc. - Income of Working Capital Line;
Dollar Tree Stores, Inc. - Second Extension of the Development Loan Maturity
Date and of the Development Loan Commitment Termination Date

Dear Ray:

For convenience, capitalized terms used in this letter will have the meanings assigned to them in the Credit Agreement among the undersigned and Dollar Tree Stores, Inc., Dollar Tree Distribution, Inc., and Dollar Tree Management, Inc. dated as of January 11, 1996, as amended by a First Amendment to Credit Agreement dated as of January 31, 1996, and as further amended by a Second Amendment to Credit Agreement dated as of June 17, 1996 (as amended, such agreement is hereinafter referred to as the "Credit Agreement"). First, you have requested that the Working Capital Line be increased by Eighteen Million, Four Hundred Thousand and No/100 Dollars ($18,400,000)to Seventy-eight Million, Four Hundred Thousand and No/100 Dollars ($78,400,000.00). We consent to that increase and have instructed our legal counsel to prepare immediately amendments to the Working Capital Notes and such other amendments to the Loan Documents and the Intercompany Loan Documents for your signature and delivery to and signature by the respective Lenders as are necessary to reflect and permit this increase. Further, you agree to provide such other documentation as we or our counsel deem necessary and appropriate to effect this increase.

In addition, the Development Line will be decreased by said amount ($18,400,000) to $41,600,000 (which is the principal amount currently outstanding). We will also instruct our counsel to prepare such amendments to the Development Line Notes and the Loan Documents for your signature and for delivery to and signature by the Lenders as are necessary to reflect and permit this decrease. Further, you agree to provide such additional documentation as we or our counsel deem necessary or appropriate to effect this decrease.

Second, pursuant to Section 2.3 of the Credit Agreement, you have requested that we extend the Development Loan Commitment Termination Date for an additional 90 day period. We hereby agree to extend the Development Loan Commitment Termination Date for a period of 90 days to July 8, 1997. As you know, due to the decrease in the Development Line, you have no current availability thereunder.

Further, we are willing to and hereby agree to extend the Development Loan Maturity Date an additional 90 days to July 8, 1997. Consequently, unless it becomes due and payable sooner under the Credit Agreement, the unpaid principal amount of the Development Loan and all accrued and unpaid interest thereon shall now be due and payable in full on July 8, 1997.

To formalize all of this, in accordance with Section 2.3 of the Credit Agreement, we have each pre-executed a Development Line Extension Request and would ask that you execute it and return it to us for our files. An extra original is enclosed for you to keep for your records.

Except as modified and extended hereby, the terms of the Credit Agreement remain unaltered. As you know, the next consideration date as set forth in Exhibit 2.3(a) of the Credit Agreement is October 7, 1996, and any request to extend the Development Loan Commitment Termination Date with respect to any unused portions of the Development Line must be made by Stores in writing on the form attached to the Credit Agreement as Exhibit 2.3(b) at least 20 days prior to such consideration date.

We are glad to be able to accommodate these requests and hope you will not hesitate to contact us if you have any questions. This letter may be executed in multiple counterparts, each of which when read together shall constitute one agreement.

NATIONSBANK, N.A.

By: /s/ Monique Adams
Title:

CRESTAR BANK

By: /s/ Bruce Nave
Title:

SIGNET BANK

By: /s/ James Whitham
Title:

THE FIRST NATIONAL BANK OF BOSTON

By: /s/ Judith Kelly
Title:

Seen and Agreed to:

Dollar Tree Stores, Inc.

By: /s/ H. Ray Compton

Title: Executive Vice President

Dollar Tree Distribution, Inc.

By: /s/ H. Ray Compton

Title: Executive Vice President

Dollar Tree Management, Inc.

By: /s/ H. Ray Compton

Title: Executive Vice President

Development Line Extension Request

We hereby request a 90 day extension of the Development Loan Commitment Termination Date and Development Loan Maturity Date from April 9, 1997 to July 8, 1997. We certify that $0 is currently available under the Development Line in accordance with Section 2.3 of the Credit Agreement. This Development Line Extension Request may be executed in multiple counterparts, each of which when read together shall constitute one agreement.

Sincerely,

Dollar Tree Stores, Inc.

By: /s/ H. Ray Compton

Title: Executive Vice President
Date: June 7, 1996

ACCEPTED:

NATIONSBANK, N.A.

By: /s/ Monique Adams
Title:
Date: June 26, 1996

CRESTAR BANK

By: /s/ Bruce Nave
Title:
Date: June 28, 1996

SIGNET BANK

By: /s/ James Whitham
Title:
Date: June 28, 1996

THE FIRST NATIONAL BANK OF BOSTON

By: /s/ Judith Kelly
Title:
Date: July 2, 1996

NATIONSBANK, N.A.
CRESTAR BANK
SIGNET BANK
THE FIRST NATIONAL BANK OF BOSTON

June 28, 1996

Mr. H. Ray Compton
Dollar Tree Stores, Inc.
2555 Ellsmere Road
Norfolk, VA 23513

Re: Dollar Tree Distribution, Inc. - Income of Working Capital Line;
Dollar Tree Stores, Inc. - Second Extension of the Development Loan Maturity
Date and of the Development Loan Commitment Termination Date

Dear Ray:

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In addition, the Development Line will be decreased by said amount ($18,400,000) to $41,600,000 (which is the principal amount currently outstanding). We will also instruct our counsel to prepare such amendments to the Development Line Notes and the Loan Documents for your signature and for delivery to and signature by the Lenders as are necessary to reflect and permit this decrease. Further, you agree to provide such additional documentation as we or our counsel deem necessary or appropriate to effect this decrease.

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To formalize all of this, in accordance with Section 2.3 of the Credit Agreement, we have each pre-executed a Development Line Extension Request and would ask that you execute it and return it to us for our files. An extra original is enclosed for you to keep for your records.

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We are glad to be able to accommodate these requests and hope you will not hesitate to contact us if you have any questions. This letter may be executed in multiple counterparts, each of which when read together shall constitute one agreement.

NATIONSBANK, N.A.

By: /s/ Monique Adams
Title:

CRESTAR BANK

By: /s/ Bruce Nave
Title:

SIGNET BANK

By: /s/ James Whitham
Title:

THE FIRST NATIONAL BANK OF BOSTON

By: /s/ Judith Kelly
Title:

Seen and Agreed to:

Dollar Tree Stores, Inc.

By: /s/ H. Ray Compton

Title: Executive Vice President

Dollar Tree Distribution, Inc.

By: /s/ H. Ray Compton

Title: Executive Vice President

Dollar Tree Management, Inc.

By: /s/ H. Ray Compton

Title: Executive Vice President

Development Line Extension Request

We hereby request a 90 day extension of the Development Loan Commitment Termination Date and Development Loan Maturity Date from April 9, 1997 to July 8, 1997. We certify that $0 is currently available under the Development Line in accordance with Section 2.3 of the Credit Agreement. This Development Line Extension Request may be executed in multiple counterparts, each of which when read together shall constitute one agreement.

Sincerely,

Dollar Tree Stores, Inc.

By: /s/ H. Ray Compton

Title: Executive Vice President
Date: June 7, 1996

ACCEPTED:

NATIONSBANK, N.A.

By: /s/ Monique Adams
Title:
Date: June 26, 1996

CRESTAR BANK

By: /s/ Bruce Nave
Title:
Date: June 28, 1996

SIGNET BANK

By: /s/ James Whitham
Title:
Date: June 28, 1996

THE FIRST NATIONAL BANK OF BOSTON

By: /s/ Judith Kelly
Title:
Date: July 2, 1996

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<ARTICLE> 5

<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM THE COMPANY'S FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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