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 March 31, 1998

( ) 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
(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 May 8, 1998, there were 39,319,559 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)

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	(Unaudited) March 31, 1998	December 31, 1997
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ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,214	$ 43,695
Accounts receivable	444	1,406
Merchandise inventories	128,776	89,066
Deferred tax asset	5,347	5,093
Prepaid expenses and other current assets	4,826	3,762
Total current assets	143,607	143,022
Property and equipment, net	87,662	82,071
Deferred tax asset	2,092	2,029
Goodwill, net	43,996	44,478
Other assets, net	943	976
TOTAL ASSETS	$278,300	$272,576
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 43,860	$ 44,058
Accrued liabilities	19,400	19,526
Income taxes payable	3,898	18,908
Current installments of obligations under capital leases	294	317
Total current liabilities	67,452	82,809
Long-term debt	40,000	30,000
Obligations under capital leases, excluding current installments	732	804
Other liabilities	4,402	4,037
Total liabilities	112,586	117,650
Subsequent event (note 2)		
Shareholders' equity:		
Common stock, par value $0.01. Authorized 100,000,000 shares, 39,278,971 shares issued and outstanding at March 31, 1998 and 39,139,965 shares issued and outstanding at December 31, 1997	393	391
Additional paid-in capital	40,013	36,185
Retained earnings	125,308	118,350
Total shareholders' equity	165,714	154,926
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$278,300	$272,576

</TABLE>

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)

<TABLE>

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	Three Months Ended March 31, 1998	1997
Net sales	$150,834	$117,746
Cost of sales	95,866	76,455
Gross profit	54,968	41,291
Selling, general, and administrative expenses:		
Operating expenses	39,131	32,116
Depreciation and amortization	4,009	2,932
Total selling, general and administrative expenses	43,140	35,048
Operating income	11,828	6,243
Interest expense	515	450
Income before income taxes	11,313	5,793
Provision for income taxes	4,355	2,230
Net income	$ 6,958	$ 3,563
Net income per share (note 2):		
Basic net income per share	$ 0.18	$ 0.09
Weighted average number of common shares outstanding:	39,170	38,904
Diluted net income per share	$ 0.16	$ 0.08
Weighted average number of common shares and common share equivalents outstanding	43,315	42,894

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

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

<TABLE>
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	Three Months Ended March 31, 1998	1997
Cash flows from operating activities:		
Net income	$ 6,958	$ 3,563
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,009	2,932
Loss on disposal of property and equipment	328	25
Provision for deferred income taxes	(317)	(166)
Changes in assets and liabilities increasing (decreasing) cash and cash equivalents:		
Accounts receivable	962	927
Merchandise inventories	(39,710)	(14,886)
Prepaid expenses and other current assets	(1,064)	534
Other assets	33	452
Accounts payable	(198)	(2,483)
Accrued liabilities	(126)	(2,024)
Income taxes payable	(13,263)	(10,246)
Other liabilities	365	665

Total adjustments	(48,981)	(24,270)
Net cash used in operating activities	(42,023)	(20,707)
Cash flows from investing activities:		
Capital expenditures	(9,582)	(9,229)
Proceeds from sale of property and equipment	136	0
Net cash used in investing activities	(9,446)	(9,229)
Cash flows from financing activities:		
Proceeds from long term debt	22,200	68,200
Repayment of long term debt and facility fees	(12,200)	(37,147)
Principal payments under capital lease obligations	(95)	(77)
Proceeds from options exercised and purchase of shares under ESPP	2,083	327
Net cash provided by financing activities	11,988	31,303
Net increase (decrease) in cash and cash equivalents	(39,481)	1,367
Cash and cash equivalents at beginning of period	43,695	2,987
Cash and cash equivalents at end of period	$ 4,214	$ 4,354

</TABLE>

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 March 31, 1998, and for the three-month period 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, 1997, contained in the Company's Annual Report on Form 10-K. The results of operations for the three-month period ended March 31, 1998 are not necessarily indicative of the results to be expected for the entire year ending December 31, 1998.

2. NET INCOME PER SHARE

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

<TABLE>
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	1998	1997
	(In thousands, except per share data)	
<S>	<C>	<C>
Basic net income per share:		
Net income	$ 6,958	$ 3,563
Weighted average number of common shares outstanding	39,170	38,904
Basic net income per share	$ 0.18	$ 0.09
Diluted net income per share:		
Net income	$ 6,958	$ 3,563
Weighted average number of common shares outstanding	39,170	38,904
Dilutive effect of stock options and warrants (as determined by applying		

the treasury stock method)..................	4,145	3,990
Weighted average number of common shares and common share equivalents outstanding.........	43,315	42,894
Diluted net income per share......	$ 0.16	$ 0.08

</TABLE>

On April 21, 1998, the Board of Directors approved the grant to employees of options to purchase 553,830 shares of the Company's Common Stock.

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

FORWARD LOOKING STATEMENTS. The Company has made in this report, and from time to time may otherwise make, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning the Company's operations, economic performance and financial condition. Such statements may be identified by the use of words such as "believe," "anticipate" and "expect." The forward-looking statements concern, among other things, the Company's expansion plans and store openings; sales per square foot and comparable store net sales trends; the projected capacity and the performance of the Chesapeake and the proposed Olive Branch distribution centers; the opening date and cost of the Olive Branch distribution center; the subleasing of the Memphis facility; increases in shipping or distribution costs; the Dollar Bills litigation; the potential products liability claims; and adverse economic factors. Such forward-looking statements are subject to various known and unknown risks and uncertainties. Actual results, performance or actions of the Company could differ materially from those currently anticipated due to a number of factors, including those discussed in the Company's 1997 Annual Report on Form 10-K under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations- Forward Looking Statements" and "Business" and as detailed in the Company's most recent prospectus, dated March 17, 1998, under the caption "Risk Factors."

The Three Months Ended March 31, 1998 and 1997

Results of Operations and General Comments

Net sales increased $33.1 million, or 28.1%, to $150.8 million for the three months ended March 31, 1998, from $117.7 million for the three months ended March 31, 1997. Of this increase, (i) approximately 81%, or $26.8 million, was attributable to stores opened in 1997 and 1998 which are not included in the Company's comparable store net sales calculation, and (ii) approximately 19%, or $6.3 million, was attributable to comparable store net sales growth, which represented a 5.4% increase over comparable store net sales in the corresponding quarter of the prior period. 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. Management believes that a consistent in-stock inventory position in basic consumable goods throughout the quarter contributed to the comparable store net sales increase. The Company opened 39 new stores and closed two stores during the first quarter of 1998, compared to opening 30 new stores during the first quarter of 1997.

Management anticipates that the primary source of future net 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 $13.7 million, or 33.1%, to $55.0 million in the first quarter of 1998 from $41.3 million in the first quarter of 1997. As a percentage of net sales, gross profit increased to 36.4% from 35.1%, primarily due to improved merchandise costs (including freight) and improved markdown costs as a percentage of net sales. The improvement in merchandise costs is primarily due to favorable pricing and the earlier receipt of higher margin items. Because of the earlier receipt of selected items, management does not expect this rate of improvement to continue for the balance of the year. Management also expects that shipping costs from Asia may increase in 1998 as a result of the announcement by a trans-Pacific ocean- shipping cartel that it will try to force a rate increase in 1998. Management believes the annualized increase in shipping costs to be approximately $1.2 million.

Selling, general and administrative expenses ("SGA"), which include operating expenses and depreciation and amortization, increased $8.1 million, or 23.1%, to $43.1 million in the first quarter of 1998 from $35.0 million in the first quarter of 1997, and decreased as a percentage of net sales to 28.6% from 29.8% during the same period. This decrease in SGA expense, as a percentage of net sales, resulted primarily from the leveraging of fixed costs, due to the strong comparable store sales increases, and from on-going cost control initiatives.

Operating income increased $5.6 million, or 89.5%, to $11.8 million for the first quarter of 1998 from $6.2 million for the comparable period in 1997, and increased as a percentage of net sales to 7.8% from 5.3% during the same period for the reasons noted above.

Liquidity and Capital Resources

The Company's on-going 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 March 1998, the Company purchased approximately 43 acres of land in Olive Branch, Mississippi, for the purpose of building a new distribution center to replace the existing facility located in Memphis, Tennessee. The new facility will be modeled after the recently completed Chesapeake distribution center and will contain similar advanced materials handling technologies. The Olive Branch facility will be approximately 425,000 square feet and is expected to require an investment of approximately $20 million. Management believes that, upon completion of this facility, the Company's capacity to service stores will increase to approximately 2,000 stores. The Company believes that the facility will be operational in early 1999. There can be no assurance that delays will not be experienced in the opening of the Olive Branch distribution center, that complications will not occur in its operation or in the transition from the Memphis facility or that cost overruns will not

be experienced in building the facility. Any such delays or complications could interrupt the receipt and distribution of merchandise to the stores, which could in turn materially adversely affect the Company's business and results of operation.

During the first three months of 1998 and 1997, net cash used in operations was $42.0 million and $20.7 million, respectively, primarily used to build inventory levels. The increase in 1997 reflects higher inventory levels in preparation for Easter sales and to stock upcoming store openings, in addition to the earlier receipt of merchandise mentioned above. During the first three months of 1998 and 1997, net cash used in investing activities was $9.4 million and $9.2 million, respectively, primarily in payment of capital expenditures. Net cash provided by financing activities was $12.0 million and $31.3 million during the first three months of 1998 and 1997, respectively, primarily used to fund seasonal working capital needs. In 1998, net cash provided by financing activities was significantly lower than in the prior year period due primarily to the Company's strong cash position at the beginning of the year, which enabled it to delay its borrowings under its credit facilities.

The Company's borrowings under its bank facilities and senior notes were $40.0 million at March 31, 1998, and $34.5 million at March 31, 1997. Borrowings at December 31, 1997, amounted to $30.0 million. Under the Company's bank facilities, an additional $125.0 million is available at March 31, 1998, approximately $33.3 million of which is committed to certain letters of credit issued in relation to the routine purchase of foreign merchandise.

New Accounting Pronouncements

The Financial Accounting Standards Board has issued Statements No. 130, Reporting Comprehensive Income (SFAS 130) and No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131). SFAS 130 and SFAS 131 are effective for the Company beginning January 1998 and for the year ended December 31, 1998, respectively. SFAS 130 is currently not applicable for the company.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

The Company has previously reported in its 1997 Annual Report on Form 10-K a dispute involving Michael and Pamela Alper and a corporation they control. There have been no material developments regarding this matter in 1998.

The Company has recalled certain retractable dog leashes which were alleged to have caused several personal injuries, as previously reported in its 1997 Annual Report on Form 10-K. There have been no other material developments regarding this matter in 1998.

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 5. OTHER INFORMATION.

In March 1998, the Company subleased its Norfolk facility through June 2004 for an annual amount that management expects will at least equal the Company's annual obligation under the prime lease. In addition, the Company is liable for rent and pass-through costs under the Memphis lease until September 2005, at a current annual cost of approximately $702,000. Although the Company expects to be able to sublease the Memphis facility, no assurance can be given that an acceptable sublease will be secured.

The Company is in the process of borrowing approximately $19.0 million to finance the Olive Branch facility.

In April 1998, the Board of Directors approved the promotion of Frederick C. Coble to Senior Vice President, Chief Financial Officer. He will continue to report to H. Ray Compton, Executive Vice President.

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

(a) Exhibits.

The following documents, filed as exhibits 10.1 and 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, are incorporated herein by reference.

10.1 Lease dated March 27, 1998 by and between the Company and Raytheon Service Company.

10.2 Lease Guarantee dated March 27, 1998 by and between the Company and Raytheon Company.

(b) Reports on Form 8-K.

The Company filed two Reports on Form 8-K on March 4, 1998, one of which included the Company's audited consolidated financial statements for the years ended December 31, 1995, 1996 and 1997. The second Report on Form 8-K filed on March 4, 1998 included the Company's press release regarding the filing of a Registration Statement on Form S-3 on the same day.

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: May 13, 1998

DOLLAR TREE STORES, INC.

By: /s/ Frederick C. Coble

Frederick C. Coble
Senior Vice President,
Chief Financial Officer
(principal financial and
accounting officer)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM THE COMPANY'S FORM 10-Q FOR THE PERIOD ENDED MARCH 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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