

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 30, 2004

OR

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
(State or other jurisdiction of
incorporation or organization)

54-1387365
(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 No

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

As of December 3, 2004, there were 112,942,142 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 INCOME STATEMENTS**

(In thousands, except per share data)	13 Weeks Ended		39 Weeks Ended	
	October 30, 2004	November 1, 2003	October 30, 2004	November 1, 2003
Net sales	\$ 723,967	\$ 665,211	\$ 2,138,531	\$ 1,906,807
Cost of sales	467,463	421,612	1,382,408	1,224,313
Gross profit	256,504	243,599	756,123	682,494
Selling, general and administrative expenses	202,915	183,234	594,791	520,038
Operating income	53,589	60,365	161,332	162,456
Interest expense, net	(1,762)	(1,566)	(4,164)	(3,505)
Income before income taxes	51,827	58,799	157,168	158,951
Provision for income taxes	19,973	22,638	60,572	61,196
Net income	\$ 31,854	\$ 36,161	\$ 96,596	\$ 97,755
Net income per share:				
Basic	\$ 0.28	\$ 0.31	\$ 0.85	\$ 0.85
Diluted	\$ 0.28	\$ 0.31	\$ 0.85	\$ 0.85

See accompanying Notes to Condensed Consolidated Financial Statements.

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**DOLLAR TREE STORES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)	October 30, 2004	January 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 87,844	\$ 168,685
Short-term investments	10,000	—
Merchandise inventories	775,292	525,643
Other current assets	45,276	28,241
Total current assets	918,412	722,569
Property, plant and equipment, net	661,147	613,214
Intangibles, net	124,590	123,738
Other assets, net	8,455	20,785
TOTAL ASSETS	\$ 1,712,604	\$ 1,480,306
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 19,000	\$ 25,000
Accounts payable	173,856	114,972
Other current liabilities	108,772	88,095
Income taxes payable	6,029	37,035
Total current liabilities	307,657	265,102
Long-term debt, excluding current portion	250,000	142,568
Other liabilities	78,582	58,114
Total liabilities	636,239	465,784
Shareholders' equity:		
Common stock, par value \$0.01. 300,000,000 shares authorized, 112,836,249 and 114,083,768 shares issued and outstanding at October 30, 2004 and January 31, 2004, respectively	1,128	1,141
Additional paid-in capital	173,733	208,870
Accumulated other comprehensive loss	(502)	(970)
Unearned compensation	(133)	(62)
Retained earnings	902,139	805,543
Total shareholders' equity	1,076,365	1,014,522
Commitments and contingencies	—	—
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,712,604	\$ 1,480,306

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)	39 Weeks Ended	
	October 30, 2004	November 1, 2003
Cash flows from operating activities:		
Net income	\$ 96,596	\$ 97,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	90,895	74,093
Other non-cash adjustments to net income	27,694	25,593
Changes in working capital	(203,560)	(191,733)
Net cash provided by operating activities	11,625	5,708
Cash flows from investing activities:		
Capital expenditures	(140,017)	(178,578)
Purchase of Greenbacks, Inc., net of cash acquired of \$1,248	—	(99,560)
Purchase of short-term investments	(110,500)	(30,360)
Proceeds from maturities of short-term investments	100,500	93,885
Other	(1,925)	(3,052)
Net cash used in investing activities	(151,942)	(217,665)
Cash flows from financing activities:		
Proceeds from long-term debt, net of facility fees of \$1,094	248,906	39,700
Repayment of long-term debt	(148,568)	(11,813)
Principal payments under capital lease obligations	(3,537)	(5,681)
Payments for share repurchases	(48,611)	—
Proceeds from stock issued pursuant to stock-based compensation plans	11,286	19,587
Net cash provided by financing activities	59,476	41,793
Net decrease in cash and cash equivalents	(80,841)	(170,164)
Cash and cash equivalents at beginning of period	168,685	237,302
Cash and cash equivalents at end of period	\$ 87,844	\$ 67,138
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest, net of amount capitalized	\$ 5,559	\$ 5,598
Income taxes	\$ 67,359	\$ 57,432

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 accompanying unaudited condensed consolidated financial statements of Dollar Tree Stores, Inc. and its wholly-owned subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and are presented in accordance with the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended January 31, 2004 contained in the Company's Annual Report on Form 10-K filed April 13, 2004. The results of operations for the 13 and 39 weeks ended October 30, 2004 are not necessarily indicative of the results to be expected for the entire fiscal year ending January 29, 2005.

In the Company's opinion, the unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of its financial position as of October 30, 2004 and the results of its operations and cash flows for the periods presented. The January 31, 2004 balance sheet information was derived from the audited consolidated financial statements as of that date.

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

2. REVOLVING CREDIT FACILITY

In March 2004, the Company entered into a five-year Revolving Credit Facility (the Facility). The Facility provides for a \$450.0 million revolving line of credit, including up to \$50.0 million available for letters of credit, bearing interest at LIBOR, plus 0.475%. The Facility bears an annual facilities fee, calculated as a percentage, as defined, of the amount available under the line of credit and an annual administrative fee payable quarterly. The Facility, among other things, requires the maintenance of certain specified financial ratios, restricts the payment of certain distributions and prohibits the incurrence of certain new indebtedness. As of October 30, 2004, there was \$250.0 million outstanding under this Facility.

The Company used availability under the Facility to repay \$142.6 million of variable-rate debt and to purchase short-term, government-sponsored municipal bonds. The Company's \$150.0 million revolving credit facility (Old Facility) was terminated concurrent with entering into the Facility. The net debt issuance costs related to the Old Facility and the variable-rate debt totaled \$0.7 million and are included in "other assets, net" on the January 31, 2004 condensed consolidated balance sheet. These costs were charged to interest expense during the 39 weeks ended October 30, 2004. As a result of the repayment of the variable-rate debt, the \$25.0 million, \$10.0 million and \$5.0 million interest rate swaps previously designated to the variable-rate debt were redesignated to new borrowings under the Facility. This redesignation does not affect the accounting methods used for the individual interest rate swaps.

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3. NET INCOME PER SHARE

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

(In thousands, except per share data)	13 Weeks Ended		39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003	Oct. 30, 2004	Nov. 1, 2003
Basic net income per share:				
Net income	\$ 31,854	\$ 36,161	\$ 96,596	\$ 97,755
Weighted average number of shares outstanding	112,890	115,038	113,411	114,599
Basic net income per share	\$ 0.28	\$ 0.31	\$ 0.85	\$ 0.85
Diluted net income per share:				
Net income	\$ 31,854	\$ 36,161	\$ 96,596	\$ 97,755
Weighted average number of shares outstanding	112,890	115,038	113,411	114,599
Dilutive effect of stock options (as determined by applying the treasury stock method)	483	1,389	693	919
Weighted average number of shares and dilutive potential shares outstanding	113,373	116,427	114,104	115,518
Diluted net income per share	\$ 0.28	\$ 0.31	\$ 0.85	\$ 0.85

For the 13 weeks ended October 30, 2004 and November 1, 2003, 1,957,889 and 172,359 stock options, respectively, are not included in the calculation of the weighted average number of shares and dilutive potential shares outstanding because their effect would be anti-dilutive. For the 39 weeks ended October 30, 2004 and November 1, 2003, 1,512,428 and 1,596,475 stock options, respectively, are not included in the calculation of the weighted average number of shares and dilutive potential shares outstanding because their effect would be anti-dilutive.

4. STOCK-BASED COMPENSATION

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

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

(In thousands, except per share data)	13 Weeks Ended		39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003	Oct. 30, 2004	Nov. 1, 2003
Net income, as reported	\$31,854	\$36,161	\$96,596	\$ 97,755
Deduct: Total stock-based employee compensation determined under fair value based method, net of related tax effects	(3,296)	(3,178)	(9,979)	(10,027)
Net income for SFAS No. 123	\$28,558	\$32,983	\$86,617	\$ 87,728
Net income per share:				
Basic, as reported	\$ 0.28	\$ 0.31	\$ 0.85	\$ 0.85
Basic, pro forma for SFAS No. 123	\$ 0.25	\$ 0.29	\$ 0.76	\$ 0.77
Diluted, as reported	\$ 0.28	\$ 0.31	\$ 0.85	\$ 0.85
Diluted, pro forma for SFAS No. 123	\$ 0.25	\$ 0.28	\$ 0.76	\$ 0.76

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

On May 10, 2004, the Board of Directors granted options to employees under the Company's Equity Incentive Plan to purchase 1,513,400 shares of the Company's common stock at an exercise price of \$25.26 per share. The exercise price represents the fair market value of the Company's stock at the date of grant. For pro forma disclosure purposes, the fair value of these newly granted options was calculated using the Black-Scholes option-pricing model with the following assumptions: expected term in years of 5.4; expected volatility of 59.8%; annual dividend yield of zero; and risk-free interest rate of 3.7%. Using these assumptions, the weighted fair value of options granted on May 10, 2004 was \$14.13.

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5. SHAREHOLDERS' EQUITY

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:

(In thousands)	13 Weeks Ended		39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003	Oct. 30, 2004	Nov. 1, 2003
Net income	\$31,854	\$36,161	\$96,596	\$97,755
Fair value adjustment-derivative cash flow hedging instrument	126	41	762	385
Income tax expense	(48)	(16)	(293)	(148)
Fair value adjustment, net of tax	78	25	469	237
Amortization of SFAS No. 133 cumulative effect	(10)	6	(2)	18
Income tax expense	4	(3)	1	(7)
Amortization of SFAS No. 133 cumulative effect, net of tax	(6)	3	(1)	11
Total comprehensive income	\$31,926	\$36,189	\$97,064	\$98,003

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

Share Repurchase Program

In November 2002, the Company's Board of Directors authorized the repurchase of up to \$200.0 million of the Company's common stock. Stock repurchases may be made until November 2005 in either the open market or through privately negotiated transactions. During the 13 and 39 weeks ended October 30, 2004, the Company repurchased 693,253 and 1,809,953 shares for approximately \$16.8 million and \$48.6 million, respectively, under this plan. As of October 30, 2004 cumulative stock repurchases under this plan, totaled 3,075,353 shares for approximately \$86.7 million.

6. Closing of Woodridge Distribution Center

In June 2004, the Company closed its distribution center in Woodridge, Illinois and transitioned those operations to a new facility in Joliet, Illinois. The lease for the Woodridge facility expires in June 2005. The Company accounts for vacated lease facilities in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Accordingly, in the 39 weeks ended October 30, 2004, the Company recorded a \$1.1 million charge, representing the present value of the total remaining rent and other occupancy costs directly related to the lease of the vacated Woodridge facility, which is included in selling, general and administrative expenses.

7. Litigation Matters

The Company has been named in three suits filed in California State Court related to employment matters for its California store employees. The Company is currently unable to estimate the potential liability under certain of these suits. The Company intends to vigorously defend all these lawsuits. The Company does not believe that these suits, individually or in the aggregate, will have an adverse affect on its business operations or condition. However, the Company can give no assurance that these suits, individually or in the aggregate, will not have an adverse affect on its results of operations, accrued liabilities and cash.

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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," "view," "target" or "estimate." For example, our forward-looking statements include statements regarding:

- the average size of our stores to be added in 2004 and beyond;
- the possible effect of inflation and other economic changes on our future costs and profitability, including the possible effect of future changes in fuel costs and trans-Pacific freight rates;
- our cash needs, including our ability to fund our future capital expenditures and working capital requirements;
- the capabilities of our inventory supply chain technology and other new systems;
- the impact, capacity, performance and cost of our existing distribution centers;
- costs of pending and possible future legal claims;
- the adequacy of our internal financial reporting controls;
- the possible effect on our financial results of changes in generally accepted accounting principles relating to accounting for stock-based compensation.

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the risk factors described below and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" sections in our Annual Report on Form 10-K filed April 13, 2004:

- We could fail to meet our goals for opening or expanding stores on a timely basis, which could cause our sales to suffer. We may not anticipate all the challenges that expanding our operations will impose and, as a result, we may not meet our targets for opening new stores and expanding profitably. In addition, new stores or expanded stores will cause sales at nearby stores to suffer, and we could have difficulties profitably renewing or replacing expiring leases.
- The resolution of certain legal matters discussed in Part II, Item 1, of this Form 10-Q, could have a material adverse affect on our results of operations, accrued liabilities and cash.
- Adverse economic conditions, such as reduced consumer confidence and spending due to inflation or other factors, or bad weather could significantly reduce our sales. The outbreak of war and other national and international events, such as terrorism, could lead to disruptions in the economy.
- Our profitability is vulnerable to future increases in operating and merchandise costs including shipping rates, freight costs, fuel costs, wage levels, inflation, competition and other adverse economic factors because we sell goods at the fixed \$1.00 price point.

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- Our merchandise mix relies heavily on imported goods. An increase in the cost of these goods, for example because of inflation in their country of origin or currency revaluations, or disruption in the flow of these goods may significantly decrease our sales and profits because any transition to alternative sources may not occur in time to meet our demands. In addition, products and alternative sources may also be of lesser quality and more expensive than those we currently import.
- Our sales may be below expectations during the Christmas selling season, which may cause our operating results to suffer materially.
- The performance of our distribution system is critical to our operations. Unforeseen disruptions or costs in operating and expanding our receiving and distribution systems could harm our sales and profitability.
- Disruptions in the availability of quality, low-cost merchandise in sufficient quantities to maintain our growth may reduce sales and profits.

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

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, it is against our policy to selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, shareholders should not assume that we agree with any statement or report issued by any analyst regardless of the content of the statement or report, as we have a policy against confirming information issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

Overview

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

At October 30, 2004 we operated 2,674 stores in 48 states, with 19.6 million selling square feet compared to 2,511 stores with 16.6 million square feet at November 1, 2003. During the 39 weeks ended October 30, 2004, we opened 181 stores, expanded 110 stores and closed 20 stores, compared to 166 stores opened, 100 Greenbacks stores added, 110 stores expanded and 27 stores closed during the 39 weeks ended November 1, 2003. The number of new store openings in 2004 has been less than we planned through October 30, 2004; however, we met our 20% square footage growth target for fiscal year end 2004 prior to Thanksgiving. New store openings have occurred later in the year than previously planned, which has reduced our expected sales for fiscal 2004. In the 13 and 39 weeks ended October 30, 2004, we added approximately 0.9 million and 2.7 million selling square feet, respectively, of which approximately 0.3 million and 0.8 million, respectively, were added through expanding existing stores. The average selling square feet of stores opened during the 13 and 39 weeks ended October 30, 2004 was approximately 11,000 square feet. For the remainder of 2004 and beyond, we continue to plan to open stores that have approximately 10,000 to 15,000 selling square feet. These stores generate higher sales and operating income per store than our smaller stores and we believe that they create an improved shopping environment that invites customers to shop longer and buy more.

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Our point-of-sale technology provides us with valuable sales information to assist our buyers and to improve merchandise allocation to the stores. We believe that it will enable us to better control our inventory, which will result in more efficient distribution and store operations. During the first half of fiscal 2004, we completed the roll-out of our point-of-sale systems to most of our stores.

For the 13 and 39 weeks ended October 30, 2004 we have experienced slight increases in comparable store net sales of 0.7% and 0.2%, respectively. If not for the positive effect of relocated stores, our comparable store net sales results would have been negative. Our stores between 10,000 and 15,000 square feet continue to produce our best comparable store net sales results.

We expect our trans-Pacific shipping rates to increase by approximately \$4.0 million in 2004. While fuel costs have risen in 2004 and our mileage costs as charged by our domestic carriers are increasing compared to prior years, we do not expect these costs to have a material impact on our results of operations, in part, because of the opening of two new distribution centers in the current year which has reduced the average distance between our distribution centers and the stores that they service.

Results of Operations

13 Weeks Ended October 30, 2004 Compared to The 13 Weeks Ended November 1, 2003

Net sales. Net sales increased 8.8%, or \$58.8 million, resulting from sales in our new and relocated stores, which continue to be in the 10,000-15,000 square footage range and an increase of 0.7% in comparable store net sales in the current quarter. Comparable store net sales are positively affected by our expanded and relocated stores, which we include in the calculation, and, to a lesser extent, are negatively affected when we open new stores or expand stores near existing stores.

Gross Profit. Gross profit margin decreased to 35.4% in the current quarter compared to 36.6% in the prior year quarter. The decrease was primarily due to the following:

- Merchandise cost, including inbound freight, increased approximately 10 basis points as a result of increased inbound freight costs arising from increases in fuel costs and slightly higher import rates. Partially offsetting the increased freight rates was better pricing on both domestic and import merchandise.
- Markdown expense increased approximately 50 basis points in the period due primarily to hurricane related markdowns in the period and adjustments to decrease the required markdown reserve in the prior year third quarter.
- Shrink expense increased approximately 30 basis points primarily due to an adjustment reducing the shrink reserve in the prior year third quarter to reflect actual physical inventory results. This adjustment was recorded in the second quarter in the current year.
- Occupancy costs increased approximately 30 basis points due to decreased leverage associated with a low comparable store net sales increase.

Selling, General and Administrative Expenses. Selling, general, and administrative expenses for the current period increased to 28.0%, as a percentage of net sales, compared to 27.5% in for the same period last year. This increase was primarily due to the following:

- Depreciation costs increased approximately 30 basis points in the quarter as a result of our larger new and expanded stores and the continued installation of our point-of-sale systems and other technology assets.
- Store operating costs increased approximately 20 basis points in the current period, primarily due to decreased leverage associated with a low comparable store net sales increase and increased repairs and maintenance costs due primarily to hurricane damage.
- Advertising costs increased approximately 20 basis points in the current period due to a fall advertising campaign in 2004. We employed small levels of electronic advertisements during the comparable prior year period.

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- These increases were partially offset by an approximate 10 basis point decrease in store payroll costs in the current period due to improved field management.

Operating Income. Due to the reasons discussed above, operating income decreased as a percentage of net sales to 7.4% in the third quarter of 2004 compared to 9.1% in the same period of 2003.

39 Weeks Ended October 30, 2004 Compared to The 39 Weeks Ended November 1, 2003

Net sales. Net sales increased 12.2%, or \$231.7 million resulting from sales in our new and relocated stores and a slight increase of 0.2% in comparable store sales in the current period. Comparable store net sales are positively affected by our expanded and relocated stores, which we include in the calculation, and, to a lesser extent, are negatively affected when we open new stores or expand stores near existing stores.

Gross Profit. Gross profit margin decreased to 35.4% in the current period compared to 35.8% for the prior year period. The decrease is primarily due to the following:

- Merchandise cost, including inbound freight, increased 10 basis points as a percentage of sales for the period as compared to prior year. Increases in inbound freight costs and increases in domestic purchases, which historically have a higher cost than import purchases, were partially offset by better pricing on both domestic and import merchandise. The increase in inbound freight costs is due primarily to higher fuel costs and higher import rates. The increase in domestic purchases is due to our buying a higher proportion of consumable merchandise for our larger stores.
- Markdown expense increased approximately 10 basis points due primarily to hurricane related markdowns in the third quarter of 2004 and adjustments to decrease the required markdown reserve in the prior year.
- Occupancy costs increased approximately 40 basis point due to decreased leverage associated with the low comparable store net sales increase.
- Partially offsetting these increases was an approximate 25 basis point decrease in shrink expense due to the overall improvement in the shrink rate in the current year.

Selling, General and Administrative Expenses. Selling, general, and administrative expenses for the current period increased to 27.8%, as a percentage of net sales, compared to 27.3% in for the same period last year. The increase is primarily due to the following:

- Depreciation costs increased approximately 30 basis points in the period as a result of our larger new and expanded stores, the continued installation of our point-of-sale systems and other technology assets.
- Store operating costs increased approximately 20 basis points, primarily due to decreased leverage associated with a low comparable store net sales increase.
- These increases were partially offset by an approximate 10 basis point decrease in store payroll costs in the current period due to improved field management.

Operating Income. Due to the reasons discussed above, operating income decreased as a percentage of net sales to 7.5% for the 39 weeks ended October 30, 2004 compared to 8.5% for the 39 weeks ended November 1, 2003.

Interest Expense, net. Interest expense, net increased to \$4.2 million in the current period compared to \$3.5 million last year due primarily to \$0.7 million of deferred financing costs that were charged to interest expense as a result of the refinancing of the \$150.0 million credit facility and the repayment of the \$142.6 million of variable rate debt in March 2004.

Liquidity and Capital Resources

Our business requires capital to open new stores, expand our distribution network and

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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 expansion programs from internally generated funds and borrowings under our credit facilities.

The following table compares cash flow information for the 39 weeks ended October 30, 2004 and November 1, 2003:

	39 Weeks Ended	
	Oct. 30, 2004	Nov. 1, 2003
Net cash provided by (used in):		
Operating activities	\$ 11.6	\$ 5.7
Investing activities	(151.9)	(217.7)
Financing activities	59.5	41.8

The \$5.9 million increase in cash provided by operating activities was primarily the result of better payables management and increased earnings before depreciation and amortization and other non-cash items. These increases were offset by increased inventory levels due primarily to later store openings in the current year.

The \$65.8 million decrease in cash used in investing activities was primarily the result of a decrease in capital expenditures due to higher expenditures in the prior year on our distribution center projects that were completed in the first half of fiscal 2004 and later store openings in the current year. In addition, in the prior year, we used the proceeds received from the sale of our short-term investments to pay for the purchase of Greenbacks, Inc.

The \$17.7 million increase in cash provided by financing activities was primarily the result of borrowings under our credit facility, net of the repayment of our variable rate debt for our distribution centers. This increase was partially offset by \$48.6 million in stock repurchases in the 39 weeks ended October 30, 2004 under a \$200 million authorization granted by our Board of Directors in November 2002.

In March 2004, we entered into a five-year \$450.0 million Revolving Credit Facility, including up to \$50.0 million available for letters of credit. This facility bears interest at LIBOR, plus a 0.475% spread. We used availability under this facility to repay \$142.6 million of variable rate debt related to our distribution centers and to invest in short-term government-sponsored municipal bonds. As of October 30, 2004 we had \$250.0 million outstanding under this facility.

We also have a \$125.0 million Letter of Credit Reimbursement and Security Agreement, under which approximately \$68.1 million was committed to letters of credit issued for routine purchases of imported merchandise as of October 30, 2004.

Expected Future Accounting Pronouncements

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

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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. One of our interest rate swaps does not qualify for hedge accounting treatment under SFAS No. 133, as amended by SFAS No. 138, because it contains provisions that “knockout” the swap when the variable interest rate exceeds a predetermined rate.

Interest Rate Risk

The following table summarizes the financial terms and fair values of each of our interest rate swap agreements at October 30, 2004:

Hedging Instrument	Receive Variable	Pay Fixed	Knockout Rate	Expiration	Fair Value Asset (Liability)
\$19.0 million interest rate	LIBOR	4.88%	7.75%	4/1/2009	\$ (1,262,037)
\$25.0 million interest rate	LIBOR	5.43%	N/A	3/12/2006	\$ (1,004,680)

Due to the many variables involved in determining the fair value, management is not able to predict the changes in fair value of our interest rate swaps. The fair values are the estimated amounts we would pay or receive to terminate the agreements as of the reporting date. These fair values are obtained from an outside financial institution.

During the first quarter of 2004, we refinanced our debt facilities and in June of 2004 our \$10.0 million and \$5.0 million interest rate swaps expired. In spite of the refinancing and the expiration of these swap agreements, we do not believe there have been any material changes in our interest rate risk exposure.

Item 4. CONTROLS AND PROCEDURES.

(a) Evaluation of disclosure controls and procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Office and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Pursuant to SEC Rule 13a-15, effective as of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of the date of our evaluation, our disclosure controls and procedures (as defined in Rule 13a-15(c) under the Exchange Act) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal controls

During the period covered by this report, there have been no significant changes in our internal controls over financial reporting that have materially affected, or are reasonably

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likely to materially affect, our internal controls over financial reporting. In accordance with Section 404 of the Sarbanes-Oxley Act of 2002, we are evaluating our internal controls and are in the process of making changes to improve the effectiveness of our internal control structure.

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;
- personal injury claims; and
- the infringement of the intellectual property rights of others.

On July 11, 2001, a complaint was filed in California state court by several employees who allege that our store managers in California should have been classified as non-exempt employees under California law. Therefore, they allege, our store managers should have received overtime compensation. The suit requests that the court certify the case as a class action on behalf of all California store managers, assistant managers and merchandise managers and, among other things, award overtime compensation to these managers from July 11, 1997 through the end of the case. We currently operate 195 stores in California.

On September 19, 2002, a complaint was filed in Alabama Federal Court by a former store manager who alleges that all of our store managers should have been classified as non-exempt employees under the Fair Labor Standards Act. This suit requested that the Alabama Federal Court certify the case as a collective action on behalf of all salaried managers in all our stores and, among other things, award overtime compensation to these managers from September 19, 1999 (or earlier) through the end of the case. This suit has been recently settled for an insignificant amount and the settlement will have no adverse effect on our results of operations or accrued liabilities.

On November 3, 2003, a complaint was filed in California state court by several employees who allege that our California store employees failed to receive meal period breaks and paid rest periods as required by California law. The suit requests that the California state court certify the case as a class action on behalf of all California store employees. Among other things, the suit requests the court to award each of these employees one hour of pay for each meal period break they failed to receive in accordance with law plus one hour of pay for any day in which they failed to receive all rest breaks as required by law. The suit asks that damages be awarded for the period from October 1, 2000 through the end of the case. After the suit was filed, the first California law suit originally filed on July 11, 2001, was amended to include a meal period and rest break claim for our California store managers, assistant managers and merchandise managers.

On July 30, 2004, a complaint was filed in California state court by several current and former employees who allege that our store managers and assistant managers in California should have been classified as non-exempt, hourly employees under California law. Therefore, they allege, these employees should have received overtime compensation and should have taken rest and meal period breaks. The suit seeks to have the court certify the case as a class action on behalf of all California store employees who were misclassified as exempt, salaried employees, were denied rest and meal period breaks, or were required to work off the clock and, among other things, award overtime compensation to these employees and compensatory and punitive damages.

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We will vigorously defend ourselves in all these law suits. We do not believe that these suits, individually or in the aggregate, will have an adverse affect on our business operations or condition. However, we can give no assurance that these suits, individually or in the aggregate, will not have an adverse affect on our results of operations, accrued liabilities and cash.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table presents our share repurchase activity for the 13 weeks ended October 30, 2004.

ISSUER PURCHASES OF EQUITY SECURITIES (1)

<u>Period</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands)</u>
August 1, 2004 to August 28, 2004	580,000	\$ 23.98	580,000	\$ 116,200
August 29, 2004 to October 2, 2004	35,000	23.99	35,000	115,300
October 3, 2004 to October 30, 2004	78,253	25.56	78,253	113,300
Total	693,253	\$ 24.19	693,253	

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

Item 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

Item 5. OTHER INFORMATION.

None.

Item 6. EXHIBITS.

10. Material Contracts
 - 10.1 Form of Standard Restricted Stock Unit Award Agreement for use under the Dollar Tree Stores, Inc. 2003 Equity Incentive Plan (EIP) and the Dollar Tree Stores, Inc. 2004 Executive Officer Equity Plan (EOEP) (filed herewith).
 - 10.2 Form of Standard Option Award Agreement for use under the EIP and the EOEP (filed herewith).
 - 10.3 Policy for Director Compensation approved by the Board of Directors of Dollar Tree Stores, Inc. on September 21, 2004 (filed herewith).
31. Certifications required under Section 302 of the Sarbanes-Oxley Act
 - 31.1 Certification required under Section 302 of the Sarbanes-Oxley Act of Chief Executive Officer
 - 31.2 Certification required under Section 302 of the Sarbanes-Oxley Act of Chief Financial Officer
32. Certifications required under Section 906 of the Sarbanes-Oxley Act
 - 32.1 Certification required under Section 906 of the Sarbanes-Oxley Act of Chief Executive Officer
 - 32.2 Certification required under Section 906 of the Sarbanes-Oxley Act of Chief Financial Officer

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: December 9, 2004

DOLLAR TREE STORES, INC.

By: /s/ Kent A. Kleeberger

Kent A. Kleeberger
Chief Financial Officer
(principal financial and accounting officer)

DOLLAR TREE STORES, INC.
STANDARD RESTRICTED STOCK UNIT AWARD AGREEMENT

NOTE: This document incorporates the accompanying Grant Letter, and together they constitute a single Agreement which governs the terms and conditions of your Award in accordance with the Company's 2003 Equity Incentive Plan.

THIS AGREEMENT ("Agreement"), is effective as of the Grant Date specified in the accompanying Grant Letter, by and between the Participant and Dollar Tree Stores, Inc. (together with its subsidiaries, "Company").

- A. The Company maintains the 2003 Equity Incentive Plan ("Plan").
- B. The Participant has been selected by the committee administering the Plan ("Committee") to receive a Restricted Stock Unit Award under the Plan.
- C. Key terms and important conditions of the Award are set forth in the cover letter ("Grant Letter") which was delivered to the Participant at the same time as this document. This Agreement contains general provisions relating to the Award.

IT IS AGREED, by and between the Company and the Participant, as follows:

1. Terms of Award. The following terms used in this Agreement shall have the meanings set forth in this paragraph 1:

- (a) The "Participant" is the individual named in the Grant Letter.
- (b) The "Grant Date" is the date of the Grant Letter.
- (c) The "Units" means an award denominated in shares of the Company's Stock as specified in the Grant Letter.
- (d) The "Restricted Period" shall begin on the Grant Date and extend, with respect to successive installments of Units, until the dates specified in the Grant Letter.

Other terms used in this Agreement are defined pursuant to paragraph 8 or elsewhere in this Agreement.

2. Award. Subject to the terms and conditions of this Agreement, the Participant is hereby granted the number of Units set forth in paragraph 1.

3. Settlement of Awards. The Company shall deliver to the Participant one share of Stock (or cash equal to the Fair Market Value of one share of Stock) for each vested Unit, as determined in accordance with the provisions of Grant Letter, which forms a part of this Agreement. The Units payable to the Participant in accordance with the provisions of this paragraph 3 shall be paid solely in shares of Stock, solely in cash based on the Fair Market Value of the Stock (determined as of the first business day next following the last day of the Restricted Period), or in a combination of the two, as determined by the Committee in its sole discretion, except that cash shall be distributed in lieu of any fractional share of Stock.

4. Time of Payment. Except as otherwise provided in this Agreement, payment of Units vested in accordance with the provisions of paragraph 3 will be delivered as soon as practicable after the end of the Restricted Period.

5. Vesting and Forfeiture of Units.

- (a) If the Participant's Date of Termination (as defined below) does not occur during the Restricted Period with respect to any Units, then, at the end of the Restricted Period for such Units, the Participant shall become vested only in those Units, and shall be entitled to settlement with respect to such Units free of all restrictions otherwise imposed by this Agreement.
- (b) The Participant shall become vested in the Units, and become entitled to settlement with respect to such Units free of all restrictions otherwise imposed by this Agreement, prior to the end of the Restricted Period, as follows:
 - (i) The Participant shall become vested in Units as of the Participant's Date of Termination prior to the date the Units would otherwise become vested, if the Participant's Date of Termination occurs by reason of the Participant's death, Disability or Retirement.
 - (ii) The Participant shall become vested in Units as of the date of a Change in Control, if (i) the Change in Control occurs prior to the end of the Restricted Period, (ii) the Participant's Date of Termination does not before the Change in Control date, and (iii) the Committee determines to accelerate such vesting.
- (c) The Participant shall forfeit all unvested Units:
 - (i) as of the Participant's Date of Termination, except as otherwise provided in this paragraph 5, and
 - (ii) as of the date on which the Committee determines the Participant materially violated (A) the provisions of paragraph 10 below or (B) any non-competition agreement which the Participant may have entered into with the Company.

6. Withholding. All deliveries and distributions under this Agreement are subject to withholding of all applicable taxes. The Company is entitled to (a) withhold and deduct from future wages of the Participant (or from other amounts due to Participant) or make other arrangements for the collection of all legally required amounts necessary to satisfy such withholding or (b) require the Participant promptly to remit such amounts to the Company. At the election of the Participant, and subject to such rules and limitations as may be established by the Committee from time to time, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which the Participant is otherwise entitled under the Plan.

7. Transferability.

- (a) Except as otherwise provided in paragraph 7(b), Units may not be sold, assigned, transferred, pledged or otherwise encumbered until the expiration of the Restricted Period or, if earlier, until the Participant is vested in the shares. Transfers at death are governed by paragraph 9(c) below.

(b) The Participant, with the approval of the Committee, may transfer Units during his or her lifetime for no consideration to or for the benefit of the Participant's Immediate Family, subject to such limits as the Committee may establish, and the transferee shall remain subject to all the terms and conditions applicable to the Restricted Stock prior to such transfer. The foregoing right to transfer the Units shall apply to the right to consent to amendments to this Agreement and, in the discretion of the Committee, shall also apply to the right to transfer ancillary rights associated with the Units.

(c) The term "Immediate Family" shall mean Participant's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Participant's household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests. The following transactions are not prohibited transfers for consideration: (i) a transfer under a domestic relations order in settlement of marital property rights; and (ii) a transfer to an entity in which more than fifty percent of the voting interests are owned by the Immediate Family (or the Participant) in exchange for an interest in that entity.

8. Definitions. For purposes of this Agreement, the terms used in this Agreement shall have the following meanings:

(a) Change in Control. The term "Change in Control" has the meaning set forth in the Plan.

(b) Date of Termination. The Participant's "Date of Termination" shall be the first day occurring on or after the Grant Date on which the Participant is not employed by the Company or any Subsidiary, regardless of the reason for the termination of employment; provided that a termination of employment shall not be deemed to occur by reason of a transfer of the Participant between the Company and a Subsidiary or between two Subsidiaries; and further provided that the Participant's employment shall not be considered terminated while the Participant is on a leave of absence from the Company or a Subsidiary approved by the Participant's employer.

(c) Disability. Except as otherwise provided by the Committee, the Participant shall be considered to have a "Disability" during the period in which the Participant is unable, by reason of a medically determinable physical or mental impairment, to engage in any substantial gainful activity, which condition, in the opinion of a physician selected by the Committee, is expected to have a duration of not less than 120 days.

(d) Retirement. "Retirement" of the Participant shall mean, with the approval of the Committee, the occurrence of the Participant's Date of Termination on or after the date the Participant attains age fifty-nine (59) years, six (6) months, following at least seven (7) years of service.

(e) Plan Definitions. Except where the context clearly implies or indicates the contrary, a word, term, or phrase used in the Plan is similarly used in this Agreement.

9. Binding Effect: Heirs and Successors.

- (a) The terms and conditions of this Agreement shall be effective upon delivery to the Participant, with or without execution by the Participant.
- (b) This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.
- (c) If any rights exercisable by the Participant or benefits deliverable to the Participant under this Agreement have not been exercised or delivered, respectively, at the time of the Participant's death, such rights shall be exercisable by the Designated Beneficiary, and such benefits shall be delivered to the Designated Beneficiary, in accordance with the provisions of this Agreement and the Plan. The "Designated Beneficiary" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form and at such time as the Committee shall require. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been exercisable by the Participant and any benefits distributable to the Participant shall be exercised by or distributed to the legal representative of the estate of the Participant. If a deceased Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the Designated Beneficiary's exercise of all rights under this Agreement or before the complete distribution of benefits to the Designated Beneficiary under this Agreement, then any rights that would have been exercisable by the Designated Beneficiary shall be exercised by the legal representative of the estate of the Designated Beneficiary, and any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary.

10. Disclosure of Information. The Participant recognizes and acknowledges that the Company's trade secrets, confidential information, and proprietary information, including customer and vendor lists and computer data and programs (collectively "Confidential Information"), are valuable, special and unique assets of the Company's business, access to and knowledge of which are essential to the performance of the Participant's duties. The Participant will not, before or after his Date of Termination, in whole or in part, disclose such Confidential Information to any person or entity or make such Confidential Information public for any purpose whatsoever, nor shall the Participant make use of such Confidential Information for the Participant's own purposes or for the benefit of any person or entity other than the Company under any circumstances before or after the Participant's Date of Termination; provided that this prohibition shall not apply after the Participant's Date of Termination to Confidential Information that has become publicly known through no action of the Participant. The Participant shall consider and treat as the Company's property all memoranda, books, records, papers, letters, computer data or programs, or customer lists, including any copies thereof in human- or machine-readable form, in any way relating to the Company's business or affairs, financial or otherwise, whether created by the Participant or coming into his or her possession, and shall deliver the same to the Company on the Date of Termination or, on demand of the Company, at any earlier time.

11. Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding on all persons. Such powers or decision-making may be delegated, to the extent permitted by the Plan, to one or more of Committee members or any other person or persons selected by the Committee.

12. Plan Governs. Notwithstanding anything in this Agreement to the contrary, the terms of this Agreement shall wholly incorporate and be subject to the terms of the Plan, a copy of which may be obtained from the Chief People Officer of the Company (or such other party as the Company may designate); and this Agreement is subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan.

13. No Implied Rights.

(a) The award of Units will not confer on the Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

(b) The Participant shall not have any rights of a shareholder with respect to the Units until shares of Stock have been duly issued following settlement of the Award as provided herein.

14. Notices. Any written notices provided for in this Agreement or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailing but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated by the Company's records, or if to the Company, at the Company's principal executive office.

15. Amendment. This Agreement may be amended by written agreement of the Participant and the Company, without the consent of any other person.

16. Governing Law: Jurisdiction. This Agreement shall be governed by the law of the Commonwealth of Virginia without giving effect to the choice-of-law provisions thereof. The Circuit Court of the City of Norfolk and the United States District Court, Eastern District of Virginia, Norfolk Division shall be the exclusive courts of jurisdiction and venue for any litigation, special proceeding or other proceeding as between the parties that may be brought, or arise out of, in connection with, or by reason of this Agreement. The parties hereby consent to the jurisdiction of such courts.

DOLLAR TREE STORES, INC.
STANDARD OPTION AGREEMENT

NOTE: This document incorporates the accompanying Grant Letter, and together they constitute a single Agreement which governs the terms and conditions of your Option in accordance with the Company's 2003 Equity Incentive Plan or 2004 Executive Officer Equity Plan, as applicable.

THIS AGREEMENT ("Agreement"), is effective as of the Grant Date specified in the accompanying Grant Letter, by and between the Participant and Dollar Tree Stores, Inc. ("Company").

A. The Company maintains both the 2003 Equity Incentive Plan ("EIP") and the 2004 Executive Officer Equity Plan ("EOEP").

B. The Participant has been selected by the committee administering the EIP and EOEP ("Committee") to receive a Non-Qualified Stock Option Award under one of these plans.

C. Key terms and important conditions of the Award are set forth in the cover letter ("Grant Letter") which was delivered to the Participant at the same time as this document. This Agreement contains general provisions relating to the Award. The Grant Letter specifies whether the Award is issued under the EIP or the EOEP (whichever is applicable, the "Plan").

IT IS AGREED, by and between the Company and the Participant, as follows:

1. Terms of Award. The following terms used in this Agreement shall have the meanings set forth in this paragraph 1:

- (a) The "Participant" is the individual named in the Grant Letter.
- (b) The "Grant Date" is the date of the Grant Letter.
- (c) The "Covered Shares" is that number of shares of the Company's Stock specified in the Grant Letter.
- (d) The "Exercise Price" is the price per common share set forth in the Grant Letter.

Other terms used in this Agreement are defined pursuant to paragraph 8 or elsewhere in this Agreement.

2. Award and Exercise Price. This Agreement specifies the terms of the option (the "Option") granted to the Participant to purchase the number of Covered Shares at the Exercise Price per share. The Option is not an "incentive stock option" as that term is used in Code section 422.

3. Date of Exercise. Subject to the limitations of this Agreement, the Option shall be exercisable in several installments according to the schedule set forth on the Grant Letter. An installment shall not become exercisable on the otherwise applicable vesting date if the Participant's Date of Termination (as defined in paragraph 8) occurs on or before such vesting date. Notwithstanding the foregoing provisions, however, the Option shall become exercisable with respect to all of the Covered Shares (to the extent it is not then otherwise exercisable) as follows:

- (a) The Option shall become fully exercisable upon the Participant's Date of Termination, if the Participant's Date of Termination occurs by reason of the Participant's death, Retirement or Disability.

(b) The Option shall become fully exercisable upon a Change in Control, if (i) the Participant's Date of Termination does not occur before the Change in Control and (ii) the Committee determines to accelerate such exercisability.

The Option may be exercised on or after the Date of Termination only as to that portion of the Covered Shares as to which it was exercisable immediately prior to the Date of Termination, or as to which it became exercisable on the Date of Termination in accordance with this paragraph 3.

4. Expiration. The Option shall not be exercisable after the Company's close of business on the last business day that occurs prior to the Expiration Date. The "Expiration Date" shall be earliest to occur of:

- (a) the ten year anniversary of the Grant Date;
- (b) if the Participant's Date of Termination occurs by reason of death, Disability or Retirement, the three-year anniversary of such Date of Termination;
- (c) if the Participant's Date of Termination occurs for reasons other than "cause," death, Disability, or Retirement, the 90-day anniversary of such Date of Termination; or
- (d) if the Participant's Date of Termination occurs for "cause," the Date of Termination; or
- (e) the date on which the Committee determines the Participant materially violated (i) the provisions of paragraph 10 below or (ii) any non-competition agreement which the Participant may have entered into with the Company.

5. Method of Option Exercise.

(a) Subject to the terms of this Agreement and the Plan, the Option may be exercised in whole or in part by filing a written notice with the Chief People Officer (or such other party as the Company may designate) of the Company at its corporate headquarters prior to the Company's close of business on the last business day that occurs prior to the Expiration Date. Such notice shall specify the number of Covered Shares which the Participant elects to purchase, and shall be accompanied by payment of the Exercise Price for such shares of Stock indicated by the Participant's election.

(b) Payment shall be by cash or by check payable to the Company. Except as otherwise provided by the Committee before the Option is exercised: (i) all or a portion of the Exercise Price may be paid by the Participant by delivery of shares of Stock that have been owned by the Participant for at least six (6) months and are otherwise acceptable to the Committee having an aggregate Fair Market Value (valued as of the date of exercise) that is equal to the amount of cash that would otherwise be required; and

(ii) the Participant may pay the Exercise Price by authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise.

(c) The Option shall not be exercisable if and to the extent the Company determines that such exercise would violate applicable state or Federal securities laws or the rules and regulations of any securities exchange on which the Stock is traded. If the Company makes such a determination, it shall use all reasonable efforts to obtain compliance with such laws, rules and regulations. In making any determination hereunder, the Company may rely on the opinion of counsel for the Company.

6. **Withholding.** All deliveries and distributions under this Agreement are subject to withholding of all applicable taxes. The Company is entitled to (a) withhold and deduct from future wages of the Participant (or from other amounts due to Participant) or make other arrangements for the collection of all legally required amounts necessary to satisfy such withholding or (b) require the Participant promptly to remit such amounts to the Company. At the election of the Participant, and subject to such rules and limitations as may be established by the Committee from time to time, such withholding obligations may be satisfied through the surrender of shares of Stock which the Participant already owns, or to which the Participant is otherwise entitled under the Plan.

7. **Transferability.**

(a) Except as otherwise provided in paragraph 7(b), the Option is not transferable and during the Participant's life, may be exercised only by the Participant. Transfers at death are governed by paragraph 9(c) below.

(b) The Participant, with the approval of the Committee, may transfer the Option during his or her lifetime for no consideration to or for the benefit of the Participant's Immediate Family, subject to such limits as the Committee may establish, and the transferee shall remain subject to all the terms and conditions applicable to the Option prior to such transfer. The foregoing right to transfer the Option shall apply to the right to consent to amendments to this Agreement and, in the discretion of the Committee, shall also apply to the right to transfer ancillary rights associated with the Option.

(c) The term "Immediate Family" shall mean Participant's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Participant's household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests. The following transactions are not prohibited transfers for consideration: (i) a transfer under a domestic relations order in settlement of marital property rights; and (ii) a transfer to an entity in which more than fifty percent of the voting interests are owned by the Immediate Family (or the Participant) in exchange for an interest in that entity.

8. Definitions. For purposes of this Agreement, the terms used in this Agreement shall be subject to the following:

(a) Change in Control. The term "Change in Control" has the meaning set forth in the Plan.

(b) Date of Termination. The Participant's "Date of Termination" shall be the first day occurring on or after the Grant Date on which the Participant is not employed by the Company or any Subsidiary, regardless of the reason for the termination of employment; provided that a termination of employment shall not be deemed to occur by reason of a transfer of the Participant between the Company and a Subsidiary or between two Subsidiaries; and further provided that the Participant's employment shall not be considered terminated while the Participant is on a leave of absence from the Company or a Subsidiary approved by the Participant's employer.

(c) Disability. Except as otherwise provided by the Committee, the Participant shall be considered to have a "Disability" during the period in which the Participant is unable, by reason of a medically determinable physical or mental impairment, to engage in any substantial gainful activity, which condition, in the opinion of a physician selected by the Committee, is expected to have a duration of not less than 120 days.

(d) Retirement. "Retirement" of the Participant shall mean, with the approval of the Committee, the occurrence of the Participant's Date of Termination on or after the date the Participant attains age fifty-nine (59) years, six (6) months, following at least seven (7) years of service.

(e) Plan Definitions. Except where the context clearly implies or indicates the contrary, a word, term, or phrase used in the Plan is similarly used in this Agreement.

9. Binding Effect: Heirs and Successors.

(a) The terms and conditions of this Agreement shall be effective upon delivery to the Participant, with or without execution by the Participant.

(b) This Agreement shall be binding upon, and inure to the benefit of, the Company and its successors and assigns, and upon any person acquiring, whether by merger, consolidation, purchase of assets or otherwise, all or substantially all of the Company's assets and business.

(c) If any rights exercisable by the Participant or benefits deliverable to the Participant under this Agreement have not been exercised or delivered, respectively, at the time of the Participant's death, such rights shall be exercisable by the Designated Beneficiary, and such benefits shall be delivered to the Designated Beneficiary, in accordance with the provisions of this Agreement and the Plan. The "Designated Beneficiary" shall be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form and at such time as the Committee shall require. If a deceased Participant fails to designate a beneficiary, or if the Designated Beneficiary does not survive the Participant, any rights that would have been exercisable by the Participant and any benefits distributable to the Participant shall be exercised by or distributed to the legal representative of the estate of the Participant. If a deceased

Participant designates a beneficiary and the Designated Beneficiary survives the Participant but dies before the Designated Beneficiary's exercise of all rights under this Agreement or before the complete distribution of benefits to the Designated Beneficiary under this Agreement, then any rights that would have been exercisable by the Designated Beneficiary shall be exercised by the legal representative of the estate of the Designated Beneficiary, and any benefits distributable to the Designated Beneficiary shall be distributed to the legal representative of the estate of the Designated Beneficiary.

10. Disclosure of Information. The Participant recognizes and acknowledges that the Company's trade secrets, confidential information, and proprietary information, including customer and vendor lists and computer data and programs (collectively "Confidential Information"), are valuable, special and unique assets of the Company's business, access to and knowledge of which are essential to the performance of the Participant's duties. The Participant will not, before or after his Date of Termination, in whole or in part, disclose such Confidential Information to any person or entity or make such Confidential Information public for any purpose whatsoever, nor shall the Participant make use of such Confidential Information for the Participant's own purposes or for the benefit of any person or entity other than the Company under any circumstances before or after the Participant's Date of Termination; provided that this prohibition shall not apply after the Participant's Date of Termination to Confidential Information that has become publicly known through no action of the Participant. The Participant shall consider and treat as the Company's property all memoranda, books, records, papers, letters, computer data or programs, or customer lists, including any copies thereof in human- or machine-readable form, in any way relating to the Company's business or affairs, financial or otherwise, whether created by the Participant or coming into his or her possession, and shall deliver the same to the Company on the Date of Termination or, on demand of the Company, at any earlier time.

11. Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of the Agreement by the Committee and any decision made by it with respect to the Agreement is final and binding on all persons. Such powers or decision-making may be delegated, to the extent permitted by the Plan, to one or more of Committee members or any other person or persons selected by the Committee.

12. Plan Governs. Notwithstanding anything in this Agreement to the contrary, the terms of this Agreement shall wholly incorporate and be subject to the terms of the Plan, a copy of which may be obtained from the Chief People Officer of the Company (or such other party as the Company may designate); and this Agreement is subject to all interpretations, amendments, rules and regulations promulgated by the Committee from time to time pursuant to the Plan.

13. No Implied Rights.

(a) The Option will not confer on the Participant any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor will it interfere in any way with any right the Company or any Subsidiary would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.

(b) The Participant shall not have any rights of a shareholder with respect to the shares subject to the Option, until a stock certificate has been duly issued following exercise of the Option as provided herein.

14. Notices. Any written notices provided for in this Agreement or the Plan shall be in writing and shall be deemed sufficiently given if either hand delivered or if sent by fax or overnight courier, or by postage paid first class mail. Notices sent by mail shall be deemed received three business days after mailing but in no event later than the date of actual receipt. Notices shall be directed, if to the Participant, at the Participant's address indicated by the Company's records, or if to the Company, at the Company's principal executive office.

15. Fractional Shares. In lieu of issuing a fraction of a share upon any exercise of the Option, resulting from an adjustment of the Option pursuant to Section 4.2(f) of the Plan or otherwise, the Company will be entitled to pay to the Participant an amount equal to the fair market value of such fractional share.

16. Amendment. This Agreement may be amended by written agreement of the Participant and the Company, without the consent of any other person.

17. Governing Law; Jurisdiction. This Agreement shall be governed by the law of the Commonwealth of Virginia without giving effect to the choice-of-law provisions thereof. The Circuit Court of the City of Norfolk and the United States District Court, Eastern District of Virginia, Norfolk Division shall be the exclusive courts of jurisdiction and venue for any litigation, special proceeding or other proceeding as between the parties that may be brought, or arise out of, in connection with, or by reason of this Agreement. The parties hereby consent to the jurisdiction of such courts.

Dollar Tree Stores, Inc.
Board of Directors Compensation

Director compensation is established by the Board of Directors and periodically reviewed. On September 21, 2004, the Company's Board of Directors established a new policy for director compensation based on recommendations by the Board's Nominating Committee.

Beginning at the 2005 annual meeting of shareholders, the Board has determined that each non-employee director will receive an annual retainer of \$80,000, payable quarterly. In addition, the audit committee chair will receive \$8,000 and audit committee members will receive \$4,000; the other committee chairs and committee members will receive \$4,000 and \$2,000, respectively.

Directors may defer some or all of their cash fees under our 2003 Director Deferred Compensation Plan and invest in our stock, options or an interest-bearing cash account. The Board monitors director equity ownership to ensure that each director holds an amount of Dollar Tree stock or options that the Board believes appropriately aligns his or her interest with shareholders. Any recommendations as to the amount of fees that a director should defer or that a director should invest in Dollar Tree stock or options will be made on a case-by-case basis as circumstances warrant.

Under the 2003 Non-Employee Director Stock Option Plan, the Board may grant an option for up to 9,000 shares to new directors upon election. The Board of Directors has elected to suspend annual option grants to current non-employee directors at this time.

Chief Executive Officer Certification

I, Bob Sasser, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar Tree Stores, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 9, 2004

/s/ Bob Sasser

Bob Sasser
Chief Executive Officer

Chief Financial Officer Certification

I, Kent A. Kleeberger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar Tree Stores, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 9, 2004

/s/ Kent A. Kleeberger

Kent A. Kleeberger
Chief Financial Officer

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

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

- (1) The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

December 9, 2004
Date

/s/ Bob Sasser

Bob Sasser
Chief Executive Officer

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

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

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

- (1) The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

December 9, 2004
Date

/s/ Kent A. Kleeberger

Kent A. Kleeberger
Chief Financial Officer

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