UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-11735

99 CENTS ONLY STORES
(Exact name of registrant as specified in its charter)

CALIFORNIA (State or other Jurisdiction of Incorporation or Organization)	95-2411605 (I.R.S. Employer Identification No.)
4000 UNION PACIFIC AVENUE, CITY OF COMMERCE, CALIFORNIA (Address of Principal Executive Offices)	90023 (zip code)

Registrant's telephone number, including area code: (323) 980-8145

NONE
Former name, address and fiscal year, if change since last report

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 last 90 days. [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Common Stock, No Par Value, 51,422,554 Shares as of June 30, 2001

Item 2: Results of Operations

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

<TABLE>
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99 CENTS ONLY STORES
BALANCE SHEETS
(Amounts In Thousands, Except Share Data)

ASSETS

	JUNE 30, 2001 (Unaudited)	DECEMBER 31, 2000
<S>	<C>	<C>
CURRENT ASSETS:		
Cash..	$ 211	$ 9,034
Short-term investments..	120,433	109,430
Accounts receivable, net of allowance for doubtful accounts of $147 and $113 as of June 30, 2001 and December 31, 2000,		

respectively	3,627	3,569
Inventories	68,606	63,693
Other	3,913	2,663
Total current assets	196,790	188,389
PROPERTY AND EQUIPMENT, at cost:		
Land	20,127	17,781
Building and improvement	18,921	17,357
Leasehold improvements	41,441	34,026
Fixtures and equipment	23,524	19,533
Transportation equipment	2,400	2,250
Construction in progress	8,747	5,091
	115,160	96,038
Less-Accumulated depreciation and amortization	(33,969)	(28,636)
	81,191	67,402
OTHER ASSETS:		
Deferred income taxes	12,841	12,841
Long term investments in marketable securities	1,300	2,867
Deposits	323	308
Other	9,485	5,478
	23,949	21,494
	$ 301,930	$ 277,285

</TABLE>

The accompanying notes are an integral part of these balance sheets.

<TABLE>
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99 CENTS ONLY STORES
BALANCE SHEETS
(Amounts In Thousands, Except Share Data)

LIABILITIES AND SHAREHOLDERS' EQUITY

<S>	JUNE 30, 2001 (Unaudited) <C>	DECEMBER 31, 2000 <C>
CURRENT LIABILITIES:		
Accounts payable	$ 11,720	$ 12,622
Accrued expenses:		
Payroll and payroll-related	1,667	2,530
Sales tax	964	2,802
Other	418	340
Workers compensation	3,261	2,764
Income taxes payable	4,696	552
Total current liabilities	22,726	21,610
LONG-TERM LIABILITIES:		
Deferred rent	2,202	2,142
Total Long-term liabilities	2,202	2,142
COMMITMENTS AND CONTINGENCIES:	-	-
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value Authorized-1,000,000 shares Issued and outstanding-none	-	-
Common stock, no par value Authorized-100,000,000 shares Issued and outstanding 51,442,554 at June 30, 2001 and 51,303,075 at December 31, 2000	141,064	138,487
Retained earnings	135,938	115,046
	277,002	253,533
	$ 301,930	$ 277,285

</TABLE>

The accompanying notes are an integral part of these balance sheets.

<TABLE>
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99 CENTS ONLY STORES
STATEMENTS OF INCOME
THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2001 AND JUNE 30, 2000 (Amounts In Thousands, Except Per Share Data)
(Unaudited)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
NET SALES:				
99 Cents Only Stores	$122,522	$96,407	$232,734	$183,970
Bargain Wholesale (includes sales to an affiliate of $1,217 for the three months ended June 30, 2001 and $3,020 for the six months ended June 30, 2001)	13,852	11,540	28,609	24,779
	136,374	107,947	261,343	208,749
COST OF SALES	83,195	66,332	160,094	127,632
Gross profit	53,179	41,615	101,249	81,117
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:				
Operating expenses	33,817	25,124	64,656	49,996
Depreciation and amortization	2,897	2,081	5,524	3,989
	36,714	27,205	70,180	53,985
Operating income	16,465	14,410	31,069	27,132
OTHER (INCOME) EXPENSE:				
Interest income	(1,091)	(767)	(2,426)	(1,485)
Interest expense	-	185	-	370
Other	(360)	-	(720)	-
	(1,451)	(582)	(3,146)	(1,115)
Income before provision for income taxes	17,916	14,992	34,215	28,247
PROVISION FOR INCOME TAXES	6,987	5,908	13,323	11,152
NET INCOME	$10,929	$9,084	$20,892	$17,095
NET EARNINGS PER COMMON SHARE:				
Basic	$0.21	$0.18	$0.41	$0.34
Diluted	$0.21	$0.17	$0.40	$0.33
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	51,392	50,472	51,354	50,288
Diluted	52,137	52,455	52,019	51,734

</TABLE>

The accompanying notes are an integral part of these financial statements.

<TABLE>
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99 CENTS ONLY STORES
STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2001 AND 2000
(Amounts in Thousands)
(Unaudited)

	JUNE 30,	
	2001	2000
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 20,892	$ 17,095

Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,524	3,989
Other	(190)	-
Changes in assets and liabilities associated with operating activities:		
Accounts receivable	(59)	(266)
Inventories	(4,913)	(4,957)
Other assets	(4,758)	(309)
Accounts payable	(901)	(1,801)
Accrued expenses	(2,624)	(2,230)
Worker's compensation	497	178
Income taxes	4,143	4,884
Deferred rent	60	80
Net cash provided by operating activities	17,671	16,663
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(17,810)	(18,727)
Purchases of short-term investments	(9,436)	(3,309)
Purchases of long-term investments and other	(1,825)	-
Net asset of discontinued operations	-	(7,520)
Net cash used in investing activities	(29,071)	(29,556)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of capital lease obligation	-	(50)
Proceeds from exercise of stock options	2,577	5,263
Net cash provided by financing activities	2,577	5,213
NET DECREASE IN CASH	(8,823)	(7,680)
CASH, beginning of period	9,034	7,984
CASH, end of period	$ 211	$ 304

</TABLE>

The accompanying notes are an integral part of these financial statements.

99 CENTS ONLY STORES
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in conformity with accounting principles generally accepted in the United States. However, certain information and footnote disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These statements should be read in conjunction with the Company's December 31, 2000 audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed March 22, 2001. In the opinion of management, these interim financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position and results of operations for each of the periods presented. The results of operations and cash flows for such periods are not necessarily indicative of results to be expected for the full year.

CONCENTRATION OF OPERATIONS

The Company's 99 Cents Only Stores are primarily located in Southern California and Central California except for five 99 Cents Only Stores located in Las Vegas, Nevada, and two in Phoenix, Arizona. The Company's current retail expansion plans for the 99 Cents Only Stores include planned new stores in these geographic regions. Consequently, the Company's results of operations and financial condition are substantially dependent upon general economic trends and various environmental factors in those regions.

2. EARNINGS PER COMMON SHARE

Earnings per share calculations are in accordance with SFAS No. 128, "Earnings per Share" (SFAS 128). Accordingly "basic" earnings per share is computed by dividing net income by the weighted average number of shares outstanding for the period. "Diluted" earnings per share is computed by dividing net income by the total of the weighted average number of shares outstanding plus the dilutive effect of outstanding stock options (applying the treasury stock method).

The table below is a reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding for the three and the six months ended June 30, 2001 and 2000 (amounts in thousands):

<TABLE>
<CAPTION>

	3 MONTHS ENDED JUNE 30,		6 MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Weighted average number of common shares outstanding-Basic..............................	51,392	50,472	51,354	50,288
Dilutive effect of outstanding stock options.......	745	1,983	665	1,446
Weighted average number of common shares outstanding-Diluted............................	52,106	52,455	52,0019	51,734

</TABLE>

3. SHORT-TERM INVESTMENTS

Investments in debt and equity securities are recorded as required by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The Company's investments are comprised primarily of investment grade federal and municipal bonds and commercial paper, primarily with short-term maturities. The Company generally holds investments until maturity and has not experienced any significant gain or loss from the

sales of its investments. Any premium or discount recognized in connection with the purchase of an investment is amortized over the term of the investment. As of June 30, 2001 and December 31, 2000, the fair value of investments approximated the carrying values and were invested as follows (amounts in thousands):

<TABLE>
<CAPTION>

	(UNAUDITED)	MATURITY			MATURITY	
	JUNE 30, 2001	WITHIN 1 YEAR	1 YEAR OR MORE	DEC. 31, 2000	WITHIN 1 YEAR	1 YEAR OR MORE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Municipal Bonds......	$88,866	$87,566	$1,300	$65,621	$62,754	$2,867
Corporate Securities.	5,500	5,500	0	2,000	2,000	-
Commercial Paper.....	27,367	27,367	0	44,676	44,676	-
	$121,733	$120,433	$1,300	$112,297	$109,430	$2,867

</TABLE>

4. NEW AUTHORITATIVE PRONOUNCEMENTS

In 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 is effective in 2001 and management does not expect adoption of this standard to have a material impact on the Company's financial reporting or results of operations.

In September 2000 the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Asset and Extinguishment of Liabilities, a replacement of SFAS No. 125." The standard is effective in 2001 and management does not expect adoption of this standard to have a material effect on the Company's financial position or results of operations.

In July 2001, the FASB is expected to approve two final statements: SFAS No. 141, "Business Combinations" which provides guidance on the accounting for business combinations and SFAS 142, Goodwill and Other Intangible Assets, which defines when and how goodwill and other intangible assets are amortized. These statements will be effective on January 1, 2002. We are currently reviewing these standards to determine the impact on our results of operations and financial position.

5. RELATED-PARTY TRANSACTIONS

Effective September 30, 2000, the Company sold its discontinued operation, Universal International, Inc., to a Company owned 100% by Dave and Sherry Gold, both significant shareholders of 99 Cents Only Stores (see note 12). Mr. Gold is also the Chief Executive Officer and a director. From January 1, 2001 to June 30, 2001, the Company received payments and recognized income of $1.6 million and $0.7 million under a Services Agreement and Lease Agreement, respectively, related to this transaction.

6. OPERATING SEGMENTS

The Company has two business segments, retail operations and wholesale distribution. The retail segment includes 99 Cents Only Stores retail stores. The majority of the product offerings include recognized brand-name consumable merchandise, regularly available for reorder. Bargain Wholesale sells the same merchandise at prices generally below normal wholesale levels to local, regional and national distributors and exporters.

The accounting policies of the segments are described in the summary of significant accounting policies noted in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. The Company evaluates segment performance based on the net sales and gross profit of each segment. Management does not track segment data or evaluate segment

performance on additional financial information. As such, there are no separately identifiable segment assets nor is there any separately identifiable statements of income data (below gross profit) to be disclosed.

The Company accounts for inter-segment transfer at cost through its inventory accounts.

At June 30, 2001, the Company had no customers representing more than 4.5% of Bargain Wholesale's net sales. Substantially all of the Company's net sales were to customers located in the United States.

Reportable segment information for the three months ended June 30, 2001 follows (amounts in thousands):

<TABLE>
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THREE MONTHS ENDED JUNE 30	RETAIL	WHOLESALE	TOTAL
<S>	<C>	<C>	<C>
2001			
Net sales.............	$122,522	$13,852	$136,374
Gross margin..........	50,472	2,707	53,179
2000			
Net sales.............	$96,407	11,540	$107,947
Gross margin..........	39,161	2,454	41,615

SIX MONTHS ENDED JUNE 30	RETAIL	WHOLESALE	TOTAL
2001			
Net sales.............	$232,734	$28,609	$261,343
Gross margin..........	95,718	5,531	101,249
2000			
Net sales.............	$183,970	24,779	$208,749
Gross margin..........	75,485	5,632	81,117

</TABLE>

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

GENERAL

The Company has been engaged since 1976 in the purchase and sale of name-brand, close-out and regularly available general merchandise. Since that time, the Company has sold its merchandise on a wholesale basis through its

Bargain Wholesale division. On August 13, 1982, the Company opened its first 99 Cents Only Stores retail location and as of June 30, 2001, the Company operated a chain of 110 deep-discount 99 Cents Only Stores. The Company's growth during the last four years has come primarily from new store openings. The Company opened thirteen, eighteen and twenty stores in 1998, 1999 and 2000, respectively (eleven, fourteen and twenty respectively, net of relocated stores). In 2001 the Company opened thirteen new 99 Cents Only Stores, including one relocation, through June 30, 2001, six in Southern California, two in Central California, three in Las Vegas, Nevada and two in Phoenix, Arizona. The Company plans to open at least 13 additional 99 Cents Only Stores during the remainder of the year.

Bargain Wholesale's growth over the three years ended December 31, 2000 and the first three and six months of 2001 was primarily attributable to an increased focus on large domestic accounts and expansion into new geographic markets. The Company generally realizes a lower gross profit margin on Bargain Wholesale's net sales compared to 99 Cents Only Stores retail net sales. However, Bargain Wholesale complements the Company's retail operations by allowing the Company to purchase in larger volumes at more favorable pricing and to generate additional net sales with relatively small incremental increases in operating expenses.

As part of its strategy to expand retail operations, the Company has at times opened larger new stores in close proximity to existing stores where the Company determined that the trade area could support a larger facility. In some of these situations, the Company retained its existing store so long as it continued to contribute store-level operating income. While this strategy was designed to increase revenues and store-level operating income, it has had a negative impact on comparable store net sales as some customers migrated from the existing store to the larger new store. The Company believes that this strategy has impacted its historical comparable sales growth.

The Company has made in this Form 10-Q forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 concerning the Company's operations, expansion plans, economic performance, financial condition, store openings, purchasing abilities, sales per square foot and comparable store net sales trends and capital requirements. Such forward-looking statements may be identified by the use of words such as "believe", "anticipate," "intend" and "expect" and variations thereof. Such forward-looking statements are subject to various risks and uncertainties, certain of which are beyond the Company's control. Actual results could differ materially from those currently anticipated due to a number of factors. Some of those factors include: (i) the Company's ability to open new stores on a timely basis and operate them profitably, (ii) the orderly operation of the Company's receiving and distribution process, (iii) inflation, consumer confidence and other general economic factors, (iv) the availability of adequate inventory and capital resources, (v) the risk of a disruption in sales volume in the fourth quarter and other seasonal factors, (vi) dependence on key personnel and control of the Company by existing shareholders, (vii) increased competition from new entrants into the deep-discount retail industry and (viii) the Company's ability to locate suitable real estate for new stores, open new stores and operate them profitably in new regions such as Nevada and Arizona. The Company does not ordinarily make projections of its future operating results and undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Readers of this report should carefully read the risk factors included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and in this Form 10-Q.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THE THREE MONTHS JUNE 30, 2000

NET SALES: Net sales increased $28.5 million, or 26.4%, to $136.4 million in the 2001 period from $107.9 million in the 2000 period. Retail sales increased $26.1 million to $122.5 million in the 2001 period from $96.4 million in the 2000 period. The retail net sales increase was primarily attributable to the net effect of six new stores opened in the first three months of 2001, the full quarter effect of 20 new stores opened in 2000 and the 5.5% increase in same store sales. Bargain Wholesale net sales were $13.9 million in the 2001 period, (including $1.2 million in net sales to Universal International), as compared to $11.5 million in the same period of 2000.

GROSS PROFIT: Gross profit increased approximately $11.6 million, or 27.9%, to $53.2 million in the 2001 period from $41.6 million in the 2000 period. The increase in gross profit was primarily due to higher net sales volume. Overall gross profit margin as a percentage of net sales was 39.0% in 2001 versus 38.6% in 2000. The gross profit margin was higher primarily as a result of merchandise cost factors and product category mix factors.

SELLING, GENERAL AND ADMINISTRATIVE: SG&A increased by $9.5 million, or 35.0%, to $36.7 million in the 2001 period from $27.2 million in the 2000 period. As a percentage of net sales, total SG&A increased to 26.9% from 25.2% in 2000. The majority of this increase was a result of the California minimum wage increase in January 2001 (partially offset by $0.8 million in management fees earned for administrative services provided to Universal). Additional cost increases included retail store utility costs, pre-opening costs for three stores opened in the last month of the quarter, an increase in costs associated with credit card sales and an increase in depreciation.

OPERATING INCOME: Operating income was $16.5 million in 2001, an increase of $2.1 million, or 14.3% over the second quarter of 2000. Operating margin was 12.1% in 2001 versus 13.4% in 2000.

INTEREST INCOME (EXPENSE): Interest (expense) relates to interest on the Company's capitalized lease on its warehouse facility in 2000. The building was acquired in December 2000 and no interest expense was incurred in 2001. Interest income was $1.1 million in 2001 compared to $0.8 million in 2000. Interest income is earned on the Company's cash balances and short-term and long-term investments. During 2001 and 2000, the Company had no bank debt. The increase in interest income results from a $58.7 million increase in cash and marketable securities since June 30, 2000.

OTHER INCOME: Other income of $0.4 million represents rental income from a building lease to Universal.

PROVISION FOR INCOME TAXES: The provision for income taxes was $7.0 million in the 2001 period compared to $5.9 million in 2000. The effective rate of the provision for income taxes was approximately 39.0% in 2001 versus 39.4% in 2000. This variance results from available tax credits and tax-free interest income earned.

NET INCOME: As a result of the items discussed above, net income increased $1.8 million to $10.9 million in 2001, or $0.21 per diluted share from $9.1 million in the 2000 period, or $0.17 per diluted share. Net income as a percentage of sales was 8.0% in 2001 and 8.4% in 2000.

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

NET SALES: Net sales increased $52.6 million, or 25.2%, to $261.3 million in the 2001 period from $208.7 million in the 2000 period. Retail sales increased $48.7 million to $232.7 million in the 2001 period from $184.0 million in the 2000 period. The retail net sales increase was attributable to the net effect of twelve net new stores opened in 2001, the full six months effect of 20 net new stores opened in the first half of 2000, and a 4.2% increase in comparable same store sales for the six-month period. Bargain Wholesale net sales were $28.6 million in the first six months of 2001 and $24.8 million for the same period in 2000. Included in the wholesale sales for the six months ended June 30, 2001 are $3.1 million of shipments to Universal at a 10% gross margin.

GROSS PROFIT: Gross profit increased approximately $20.1 million, or 24.8%, to $101.2 million in the 2001 period from $81.1 million in the 2000 period. The increase in gross profit was primarily due to higher net sales volume. The gross profit margin as a percentage of net sales was 38.7% in the 2001 period versus 38.9% in the 2000 period. The year to date retail gross margin was 41.1% versus 40.6% in 2000. The change in the retail gross profit margin is due to product category sales mix. The change in the overall gross profit margin resulted from a 3.4% percentage point decline in the wholesale margin due to competitive price promotions and the shipments to Universal mentioned in "Net Sales" above.

SELLING, GENERAL AND ADMINISTRATIVE: SG&A increased by $16.2 million, or 30.0%, to $70.2 million in the 2001 period from $54.0 million in the 2000 period. As a percentage of net sales, total SG&A increased to 26.8% from 25.9% in 2000. This increase was a result of the California minimum wage increase in January 2001 (partially offset by $0.8 million in management fees earned for administrative services provided to Universal). Additional cost increases included retail store utility costs, pre-opening costs for three stores opened in the last month of the period and an increase in costs associated with credit card sales.

OPERATING INCOME: Operating income increased $4.0 million, or 14.8%, to $31.1 million in 2001 from $27.1 million in 2000. Operating margin was 11.9% in 2001 versus 13.0% in 2000.

INTEREST INCOME (EXPENSE): Interest (expense) relates to interest on the Company's capitalized lease on its warehouse facility in 2000. The building was acquired in December 2000 and no interest expense was incurred in 2001. The Company's cash balances and short-term and long-term investments increased $58.7

million compared to June 2000. The change in net interest income between 2001 and 2000 was due to interest earned on short-term marketable securities. During 2001 and 2000, the Company had no bank debt.

OTHER INCOME: Other income of $0.7 million represents rental income from a building lease to Universal.

PROVISION FOR INCOME TAXES: The provision for income taxes for the six months ended June 30, 2001, was $13.3 million compared to $11.2 million in 2000. The effective rate of the provision for income taxes was approximately 38.9% in 2001 and 39.5% in 2000. This variance results from available tax credits and tax-free interest income earned.

NET INCOME: As a result of the items discussed above, net income increased $3.9 million, or 22.8% to $21.0 million or $0.40 per diluted share in 2001 from $17.1 million or $0.33 per diluted share in the 2000 period. Net income as a percentage of sales was 8.0% in 2001 and 8.2% in 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company has funded its operations principally from cash provided by operations, and has not generally relied upon external sources of financing. The Company's capital requirements result primarily from purchases of inventory, expenditures related to store openings and the working capital requirements for new and existing stores. The Company takes advantage of close-out and other special situation opportunities which frequently results in large volume purchases, and as a consequence, its cash requirements are not constant or predictable during the year and can be affected by the timing and size of its purchases.

The Company maintains cash and short-term investments with highly qualified financial institutions. At various times such amounts may be in excess of insured limits.

As of June 30, 2001, the Company owned the land and buildings for 13 of its 99 Cents Only Stores retail store locations, a main warehouse and distribution center in Los Angeles, California (where corporate headquarters are located) and a distribution warehouse in Minnesota, which is currently leased to Universal. The Company may acquire other locations in the future. Available cash not immediately needed for such purposes has been invested in short-term investment grade securities.

Net cash provided by operations was $17.7 million for the six-month period ended June 30, 2001. Inventories increased $4.9 million. Other assets increased $4.8 million. The Company's accounts payable and accruals for the six-month period ended June 30, 2001 decreased by $0.9 million and $2.6 million, respectively. In the six-month period ended June 30, 2000 cash provided by operations was $16.7 million, inventories increased $5.0 million, trade receivables increased $0.3 million and payables and accruals decreased $4.0 million.

Net cash used in investing activities was $29.1 million in 2001, consisting of expenditures for property and equipment of $17.8 million and an increase of $9.4 million in marketable securities. In 2000, net cash used in investing activities was $29.6 million, including capital expenditures of $18.7 million, an increase of $7.5 million in net assets of a discontinued operation and a $3.3 million purchase of short term securities. Cash proceeds from financing activities were $2.6 million in 2001, which represents proceeds from the exercise of employee stock options. In 2000, proceeds from the exercise of stock options were $5.2 million.

In 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 is effective in 2001 and management does not expect adoption of this standard to have a material impact on the Company's financial reporting or results of operations.

The Company currently plans to open new 99 Cents Only Stores at a targeted annual rate of 25%. The Company's cash needs for new store openings are expected to total approximately $23 million in 2001. Pre-opening expenses are not capitalized by the Company. The Company believes that its total capital expenditure requirements, including new store openings and existing store refurbishment will increase to approximately $30 million in 2001. Capital expenditures in 2001 are currently expected to be incurred primarily for new store openings, improvements to existing stores and information systems. The Company believes that cash flow from its operations will be sufficient to meet operating needs, capital spending requirements and its stock repurchase program for at least the next twelve months. The Company did not repurchase any shares of its stock during the six months ended June 30, 2001.

RISK FACTORS

INFLATION

The Company's ability to provide quality merchandise at the 99 cents price point is subject to certain economic factors, which are beyond the Company's control, including inflation. Inflation could have a material adverse effect on the Company's business and results of operations, especially given the constraints on the Company to pass on any incremental costs due to price increases or other factors. The Company believes that it will be able to respond to ordinary price increases resulting from inflationary pressures by adjusting the number of items sold at the single price point (e.g., two items for 99 cents instead of three items for 99 cents) and by changing its selection of merchandise. Nevertheless, a sustained trend of significantly increased inflationary pressure could require the Company to abandon its single price point of 99 cents per item, which could have a material adverse effect on the Company's business and results of operations. See also "We are vulnerable to uncertain economic factors and changes in the minimum wage" for a discussion of additional risks attendant to inflationary conditions.

WE DEPEND ON NEW STORE OPENINGS FOR FUTURE GROWTH

Our operating results depend largely on our ability to open and operate new stores successfully and to manage a larger business profitably. In 1998, 1999 and 2000, we opened thirteen, eighteen and twenty 99 Cents Only Stores, respectively (eleven stores in 1998 and fourteen stores in 1999, respectively, net of relocated stores). As of June 30, 2001, we opened 13 stores including one relocation and we expect to open at least 13 additional stores in 2001. We currently plan to open new stores over the next several years at a rate of approximately 25% per year. Our strategy depends on many factors, including our ability to identify suitable markets and sites for our new stores, negotiate leases with acceptable terms, refurbish stores, appropriately upgrade our financial and management information systems and controls and manage our operating expenses. In addition, we must be able to continue to hire, train, motivate and retain competent managers and store personnel. Many of these factors are beyond our control. As a result, we cannot assure you that we will be able to achieve our expansion goals. Any failure by us to achieve our expansion goals on a timely basis, obtain acceptance in markets in which we currently have limited or no presence, attract and retain management and other qualified personnel, appropriately upgrade our financial and management information systems and control or manage operating expenses could adversely affect our future operating results and our ability to execute our business strategy.

We also cannot assure you that when we open new stores we will improve our results of operations. A variety of factors, including store location, store size, rental terms, the level of store sales and the level of initial advertising influence if and when a store becomes profitable. Assuming that our planned expansion occurs as anticipated, our store base will include a relatively high proportion of stores with relatively short operating histories. We cannot assure you that our new stores will achieve the sales per saleable square foot and store-level operating margins currently achieved at our existing stores. If our new stores on average fail to achieve these results, our planned expansion could produce a decrease in our overall sales per saleable square foot and store-level operating margins. Increases in the level of advertising and pre-opening expenses associated with the opening of new stores could also contribute to a decrease in our operating margins. Finally, the opening of new stores in existing markets has in the past and may in the future reduce retail sales of existing stores in those markets, negatively affecting comparable store sales.

OUR OPERATIONS ARE MAINLY CONCENTRATED IN SOUTHERN CALIFORNIA

All but seven of our 110 99 Cents Only Stores are currently located in Southern and Central California. The Company currently has five stores in Las Vegas, Nevada and two

stores in Phoenix, Arizona. In addition, our year 2001 retail expansion plan includes new stores in these regions. Accordingly, our results of operations and financial condition largely depend upon trends in the Southern California economy, Las Vegas, Nevada and Phoenix, Arizona. For example, this region experienced an economic recession in the early 1990s. Although this recession had no material effect on our business, between 1989 and 1993 most California counties, particularly Los Angeles, recorded a significant decline in retail spending. However, retail spending could decline in the future. In addition, Southern California historically has been vulnerable to certain natural disasters and other risks, such as earthquakes, fires, floods and civil disturbance. At times, these events have disrupted the local economy. These events could also pose physical risks to our properties.

WE COULD EXPERIENCE DISRUPTIONS IN RECEIVING AND DISTRIBUTION

Our success depends upon whether our receiving and shipment schedules are organized and well managed. As we continue to grow, we may face unexpected demands on our warehouse operations that could cause delays in delivery of merchandise to or from our warehouses to our stores. A fire, earthquake, blackout or other disaster at our warehouses or stores could hurt our business, financial condition and results of operations, particularly because much of our merchandise consists of closeouts and other irreplaceable products. Although we maintain standard property and business interruption insurance, we do not have earthquake insurance on our properties.

Although we try to limit our risk of exposure to potential product liability claims, we do not know if the limitations in our agreements are enforceable. We maintain insurance covering damage from use of our products. If any product liability claim is successful and large enough, our business could suffer.

WE DEPEND UPON OUR RELATIONSHIPS WITH OUR SUPPLIERS AND THE AVAILABILITY OF CLOSE-OUT AND SPECIAL-SITUATION MERCHANDISE

Our success depends in large part on our ability to locate and purchase quality close-out and special-situation merchandise at attractive prices. This helps us maintain a mix of name-brand and other merchandise at the 99 cents price point. We cannot be certain that such merchandise will continue to be available in the future. Further, we may not be able to find and purchase merchandise in quantities necessary to accommodate our growth. Additionally, our suppliers sometimes restrict the advertising, promotion and method of distribution of their merchandise. These restrictions in turn may make it more difficult for us to quickly sell these items from our inventory.

Although we believe our relationships with our suppliers are good, we do not have long-term agreements with any supplier. As a result, we must continuously seek out buying opportunities from our existing suppliers and from new sources. We compete for these opportunities with other wholesalers and retailers, discount and deep-discount chains, mass merchandisers, food markets, drug chains, club stores and various privately-held companies and individuals. Although we do not depend on any single supplier or group of suppliers and believe we can successfully compete in seeking out new suppliers, a disruption in the availability of merchandise at attractive prices could impair our business.

WE PURCHASE IN LARGE VOLUMES AND OUR INVENTORY IS HIGHLY CONCENTRATED

To obtain inventory at attractive prices, we take advantage of large volume purchases, close-outs and other special situations. As a result, our inventory levels are generally higher than other discount retailers. At December 31, 1998, 1999 and 2000, we recorded net inventory of $49.6 million, $53.9 million and $63.7 million, respectively. At June 30, 2001 net inventory was $68.6 million.

We periodically review the net realizable value of our inventory and make adjustments to its carrying value when appropriate. The current carrying value of our inventory reflects our belief that we will realize the net values recorded on our balance sheet. However, we may not be able to do so. If we sell large portions of our inventory at amounts less than their carrying value or if we write down a significant part of our inventory, our cost of sales, gross profit, operating income and net income could suffer greatly during the period in which such event or events occur.

WE FACE STRONG COMPETITION

We compete in both the acquisition of inventory and sale of merchandise with other wholesalers, discount and deep-discount stores, single price point merchandisers, mass merchandisers, food markets, drug chains, club stores and other retailers. Our industry competitors also include many privately held companies and individuals. At times, these competitors are also customers of our Bargain Wholesale division. In the future, new companies may also enter the deep-discount retail industry. Additionally, we currently face increasing competition for the purchase of quality close-out and other special-situation merchandise. Some of our competitors have substantially greater financial resources and buying power than us. Our capability to compete will depend on many factors including our ability to successfully purchase and resell merchandise at lower prices than our competitors. We cannot assure you that we will be able to compete successfully against our current and future competitors.

WE ARE VULNERABLE TO UNCERTAIN ECONOMIC FACTORS AND CHANGES IN THE MINIMUM WAGE

Our ability to provide quality merchandise at our 99 cents price point could be hindered by certain economic factors beyond our control, including but not limited to:

- increases in inflation;
- increases in operating costs, including costs of utilities;
- increases in employee health care costs;
- increases in prevailing wage levels; and
- decreases in consumer confidence levels.

In January 2001 California enacted a minimum wage increase of $0.50 per hour with an additional $0.50 increase required in January 2002. The Company believes that annual payroll expenses could increase approximately less than 2.0% over this two-year period as a result. Because we provide consumers with merchandise at a 99 cents fixed price point, we typically cannot pass on cost increases to our customers. However the Company believes that the increased minimum wage will result in incremental customer spending in our stores.

WE FACE RISKS ASSOCIATED WITH INTERNATIONAL SALES AND PURCHASES

Although international sales historically have not been important to our consolidated net sales, they have contributed to growth in Bargain Wholesale's net sales. In addition, some of the inventory we purchase is manufactured outside the United States. There are many risks associated with doing business internationally. Our international transactions may be subject to risks such as:

- political instability;
- currency fluctuations;
- exchange rate controls;
- changes in import and export regulations; and
- changes in tariff and freight rates.

The United States and other countries have also proposed various forms of protectionist trade legislation. Any resulting changes in current tariff structures or other trade policies could lead to fewer purchases of our products and could adversely affect our international operations.

WE COULD ENCOUNTER RISKS RELATED TO TRANSACTIONS WITH OUR AFFILIATES

We currently lease 12 of our 99 Cents Only Stores and a parking lot for one of these stores from certain members of the Gold family and their affiliates. Our annual rental expense for these facilities totaled approximately $2.2 million, $1.9 million and $1.9 million in 1998, 1999 and 2000, respectively. We believe that our lease terms are just as favorable to us as they would be for an unrelated party. Under our current policy, we enter into real estate transactions with our affiliates only for the renewal or modification of existing leases and on occasions where we determine that such transactions are in our best interests. Moreover, the independent members of our Board of Directors must unanimously approve all real estate transactions between us and our affiliates. They must also determine that such transactions are equivalent to a negotiated arm's-length transaction with a third party. We cannot guarantee that we will reach agreements with the Gold family on renewal terms for the properties we currently lease from them. Also, even if we agree to such terms, we cannot be certain that our independent directors will approve them. If we fail to renew one of these leases, we could be forced to relocate or close the leased store. Any relocations or closures we experience will be costly and could adversely affect our business.

WE RELY HEAVILY ON OUR MANAGEMENT TEAM

Our success depends substantially on David Gold and Eric Schiffer, our Chief Executive Officer and President, respectively. We also rely on the continued service of our executive officers and other key management, particularly Helen Pipkin, our Senior Vice President of Wholesale Operations. We have not entered into employment agreements with any of our executive officers and we do not maintain key person life insurance on them. As we continue to grow, our success will depend on our ability to identify, attract, hire, train, retain and motivate other highly skilled management personnel. Competition for such personnel is intense, and we may not be able to successfully attract, assimilate or retain sufficiently qualified candidates.

OUR OPERATING RESULTS MAY FLUCTUATE AND MAY BE AFFECTED BY SEASONAL BUYING PATTERNS

Historically, our highest net sales and operating income have occurred during the fourth quarter, which includes the Christmas and Halloween selling seasons. During 1999 and 2000, we generated approximately 31.8% and 29.6%, respectively, of our net sales and approximately 36.2% and 32.7%, respectively, of our operating income during the fourth quarter. Accordingly, any decrease in net sales during the fourth quarter could reduce our profitability and impair our results of operations for the entire year.

In addition to seasonality, many other factors may cause our results of operations to vary significantly from quarter to quarter. Some of these factors are beyond our control. These factors include:

- the number of new stores and timing of new store openings;
- the level of advertising and pre-opening expenses associated with new stores;
- the integration of new stores into our operations;

- general economic health of the deep-discount retail industry;
- changes in the mix of products sold; - unexpected increases in shipping costs;
- ability to successfully manage our inventory levels;
- changes in our personnel;
- fluctuations in the amount of consumer spending; and
- the amount and timing of operating costs and capital expenditures relating to the growth of our business.

WE ARE SUBJECT TO ENVIRONMENTAL REGULATIONS

Under various federal, state and local environmental laws and regulations, current or previous owners or occupants of property may become liable for the costs of removing any hazardous substances found on the property. These laws and regulations often impose liability without regard to fault. We currently lease all but 11 of our stores. In December 2000, the Company exercised its option to purchase its main warehouse and distribution facility in the Los Angeles area (where our executive offices are located) for $10.5 million. However, in the future we may be required to incur substantial costs for preventive or remedial measures associated with the presence of hazardous materials. In addition, we operate one underground diesel storage tank and one above-ground propane storage tank at our main warehouse. Although we have not been notified of, and are not aware of, any current environmental liability, claim or non-compliance, we could incur costs in the future related to our leased properties and our storage tanks.

In the ordinary course of our business, we sometimes handle or dispose of commonplace household products that are classified as hazardous materials under various environmental laws and regulations. We have adopted policies regarding the handling and disposal of these products, and we train our employees on how to handle and dispose of them. We cannot assure you that our policies and training will successfully help us avoid potential violations of these environmental laws and regulations in the future.

ANTI-TAKEOVER EFFECT; WE ARE CONTROLLED BY OUR EXISTING SHAREHOLDERS

In addition to some governing provisions in our Articles of Incorporation and Bylaws, we are also subject to certain California laws and regulations which could delay, discourage or prevent others from initiating a potential merger, takeover or other change in our control, even if such actions would benefit our shareholders and us. Moreover, as of June 30, 2001, David Gold, our Chairman and Chief Executive Officer, and members of his immediate family and certain of their affiliates beneficially own 19,803,814 shares of our voting stock or 38.5% of the outstanding shares. As a result, they have the ability to influence all matters requiring the vote of our shareholders, including the election of our directors and most of our corporate actions. They can also control our policies and potentially prevent a change in our control. This could adversely affect the voting and other rights of our other shareholders and could depress the market price of our common stock.

OUR STOCK PRICE COULD FLUCTUATE WIDELY

The market price of our common stock has risen substantially since our initial public offering on May 23, 1996. Trading prices for our common stock could fluctuate significantly due to many factors, including:

- the depth of the market for our common stock;
- changes in expectations of our future financial performance, including financial estimates by securities analysts and investors;
- variations in our operating results;
- conditions or trends in our industry or in the industries of any of our significant clients;

- additions or departures of key personnel; and
- future sales of our common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to interest rate risk for its investments in marketable securities. At June 30, 2001, the Company had $121.7 million in marketable securities maturing at various dates through August 2002. The Company's investments are comprised primarily of investment grade federal and municipal bonds and commercial paper. The Company generally holds investments until maturity. Any premium or discount recognized upon the purchase of an investment is amortized over the term of the investment.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved from time to time in claims, proceedings and litigation arising from its business. The Company does not believe that any such claim, proceeding or litigation, either alone or in the aggregate, will have a material adverse effect on the Company's financial position or results of operations.

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

The Company held its 2001 Annual Meeting of Stockholders on May 16, 2001. There were two matters submitted for a vote of the shareholders. The first matter was the election of nine directors to hold office for a one-year term. The second matter was to consider and act upon a shareholder proposal that requested the Board of Directors to establish certain vendor standards to be inserted in the Company's purchase contracts with its vendors. The results of the voting for the directors were that four directors, David Gold, Howard Gold, Jeff Gold and Eric Schiffer received 39,883,652 shares voted for, and 2,124,730 shares withheld. Five directors, William O. Christy, Lawrence Glascott, Marvin Holen, Ben Schwartz and John Shields, received 41,340,621 shares voted for and 667,761 shares withheld. Accordingly all directors were elected. The results of the voting for the shareholder proposal were 4,668,213 shares voted for, 36,080,021 shares voted against and 1,260,148 shares abstained.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

None

b. Reports on Form 8-K

None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

99 CENTS ONLY STORES

Date: July 21, 2001

/s/ Andrew A. Farina

Andrew A. Farina

Chief Financial Officer

(Duly Authorized Officer)