FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

99 CENTS ONLY STORE

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

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 1998
Or
o 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
Securities registered pursuant to Section 12(b) of the Act:
Common Stock, no par value New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Security 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. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

The aggregate market value of Common Stock held by non-affiliates of the Registrant on March 25, 1999 was $547,638,368 based on a $40.50 average of the high and low sales prices for the Common Stock on such date. For purposes of this computation, all executive officers and directors have been deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers and directors are, in fact, affiliates of the Registrant.

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

Common Stock, No Par Value, 24,804,203 Shares as of March 25, 1999

Portions of Part III of this report have been incorporated by reference from the Company's Proxy Statement for the 1999 Annual Shareholders meeting.

99 CENTS ONLY STORES

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PART I

Item 1. Business

99 Cents Only Stores (the Company, including 99 Cents Only Stores and Universal International, Inc. and its retail stores, Only Deals and Odd's-N-End's) is a leading deep-discount retailer of primarily name-brand, consumable general merchandise. The Company's stores offer a wide assortment of regularly available consumer goods as well as a broad variety of first-quality, close-out merchandise. In 1998, a majority of the Company's product offerings were comprised of recognizable name-brand merchandise and were regularly available for reorder. The Company provides customers significant value on their everyday household needs and an exciting shopping experience in customer-service-oriented stores which are attractively merchandised, brightly lit and well-maintained. The Company believes that its name-brand focus, along with a product mix emphasizing value-priced food and beverage and other everyday household items, increases the frequency of consumer visits and impulse purchases and reduces the Company's exposure to seasonality and economic cycles. The Company believes its format appeals to value-conscious customers in all socio-economic groups and results in a high volume of sales. The Company's 66 existing 99 Cents Only Stores at March 25, 1999 are located in Southern California and have an average size of approximately 15,000 square feet. The Company's 99 Cents Only Stores generated average net sales per estimated saleable square foot of $335, which the Company believes is among the highest in the deep-discount convenience store industry, and average net sales per store of $4.1 million in 1998.

The Company opened its first 99 Cents Only Store in 1982 and believes that it operates the nation's oldest existing single price point general merchandise chain. The Company competes in the deep-discount industry, which is one of the fastest growing retail sectors in the United States. The Company significantly increased its rate of store expansion following its initial public offering in May 1996, expanding its 99 Cents Only Stores from 36 stores and 332,100 estimated saleable square feet at December 31, 1995 to 64 stores and 822,900 estimated saleable square feet at December 31, 1998, representing a compound annual growth rate ("CAGR") of 21.1% and 35.3%, respectively. The Company believes that its attractive store-level economics facilitates its expansion. Historically, the Company's 99 Cents Only Stores have been profitable within their first year of operation. In the first quarter of 1999, the Company opened two stores and plans to open an additional 11 net new stores during the remainder of the year. The Company intends to continue its planned store expansion over the next several years at a targeted growth rate of approximately 20% per year. The Company estimates that the Southern California market has the potential for over 199, 99 Cents Only Stores.

In September 1998 the Company completed its acquisition of Universal International, Inc. and Odd's-N-End's, Inc. As a result of the Company's acquisition, the Company owns 94% of the outstanding common stock of Universal. As of March 25, 1999 Universal operates 69 Only Deals and Odd's-N-End's deep discount stores located in Minnesota and the surrounding upper Midwest, upstate New York and Texas. Like the Company's 99 Cents Only Stores, the majority of Universal's product offerings are comprised of recognizable name-brand consumable general merchandise, regularly available for reorder. The Universal retail price points include items priced over 99 cents, however its retail product mix and merchandising techniques are similar to that of the Company's 99 Cents Only Stores. As of March 25, 1999 the 69 Universal stores had 631,600 saleable square feet.

The Company also sells merchandise through its Bargain Wholesale division at prices generally below normal wholesale levels to local, regional, and national discount, drug and grocery store chains and independent retailers, distributors and exporters. Bargain Wholesale complements the Company's retail operations by allowing the Company to purchase in larger volumes at more favorable pricing, to be exposed to a broader selection of opportunistic buys and to generate additional sales with relatively small incremental increases in operating expenses, contributing to strong overall operating margins for the Company. In addition to Universal, Bargain Wholesale enables the Company to sell merchandise at prices other than 99 Cents, providing the Company greater flexibility in inventory management. Bargain Wholesale represented 16.5% of the Company's net sales in 1998.

Industry

The Company participates primarily in the deep-discount retail industry, with its 99 Cents Only Stores and Universal's Only Deals and Odd's-N-End's stores. Deep discount retail is distinguished from other retail formats by the purchase of close-out and other special-situation merchandise at prices substantially below original wholesale cost, and the subsequent sale of this merchandise at prices significantly below regular retail. This results in a continually changing selection of specific brands of products. The deep-discount retail industry is one of the fastest growing retail sectors in the United States.

The sale of close-out or special-situation merchandise develops in response to the need of manufacturers, wholesalers and others to distribute merchandise outside their normal channels. Close-out or special-situation merchandise becomes available for a variety of reasons, including a manufacturer's over-production, discontinuance due to a change in style, color, size, formulation or packaging, the inability to move merchandise effectively through regular channels, reduction of excess seasonal inventory, discontinuation of test-marketed items and the financial needs of the manufacturer.

Many deep-discount retailers also sell merchandise that can be purchased from a manufacturer or wholesaler on a regular basis. Although this merchandise can usually be purchased at less than original wholesale and sold below normal retail, the discount, if any, is generally less than with close-out merchandise. Deep-discount retailers sell regularly available merchandise to ensure a degree of consistency in their product offerings and to establish themselves as a reliable source of basic goods.

Business Strategy

The Company's goal is to continue to provide significant value to its customers on a wide variety of consumable merchandise in an exciting store environment. The Company's strategies to achieve this goal include the following:

Focus on "Name-Brand" Consumables. The Company strives to exceed its customers' expectations of the range and quality of name-brand consumable merchandise that can be purchased for 99 Cents. During 1998, the Company purchased merchandise from more than 999 suppliers, including Colgate-Palmolive Company, Cheseborough Ponds, The Dial Corp., Eveready Battery Company Inc., General Electric Company, Gerber Products Company, The Gillette Company, Hershey Foods Corp., Johnson & Johnson, Kraft General Foods, Inc., Lever Brothers Company, Mattel Inc., The Mead Corporation, Nabisco Inc., Nestle, The Pillsbury Company, The Procter & Gamble Company, Revlon Inc. and SmithKline Beecham Corporation.

Broad Selection of Regularly Available Merchandise. The Company's retail stores offer consumer items in each of the following staple product categories: food and beverages, health and beauty aids, household products (cleaning supplies, paper goods, etc.), housewares (glassware, kitchen items, etc.), hardware, stationary and party goods, seasonal goods, baby products and toys, giftware, pet products and clothing. The Company added a deli and frozen food section in its 99 Cents Only Stores in the second and third quarters of 1997. The Company ensures that its merchandise offering is complete by supplementing its name-brand merchandise with private-label items. By consistently offering a wide selection of basic household consumable items, the Company encourages customers to shop the stores for their everyday household needs, leading to a high frequency of customer visits.

Attractively Merchandised and Well-Maintained Stores. The Company strives to provide its customers an exciting shopping experience in customer-service-oriented stores which are attractively merchandised, brightly lit and well-maintained. The Company's stores are merchandised and laid out in a "supermarket" format with items in the same category grouped together. In addition, the shelves are restocked as needed during the day. By offering merchandise in an attractive, convenient and familiar environment, the Company believes its stores appeal to a wide demographic of customers.

Strong Long-Term Supplier Relationships. The Company believes that it has developed a reputation as a leading purchaser of name-brand, reorderable and close-out merchandise at discount prices through its ability to make immediate buying decisions, experienced buying staff, willingness to take on large volume purchases and take possession of merchandise immediately, ability to pay cash or accept abbreviated credit terms, reputation for prompt payment, commitment to honor all issued purchase orders and willingness to purchase goods close to a target season or out of season. The Company's relationship with its suppliers is further enhanced by its ability to minimize channel conflict for the manufacturer by quickly selling name-brand merchandise without, if requested by the supplier, advertising or wholesaling the item. Additionally, the Company believes its well-maintained, attractively merchandised stores have contributed to a reputation among suppliers for protecting their brand image.

Complementary Bargain Wholesale Operations. Bargain Wholesale complements the Company's retail operations by allowing the Company to purchase in larger volumes at more favorable pricing to be exposed to a broader selection of opportunistic buys and to generate additional sales with relatively small incremental increases in operating expenses, contributing to strong overall operating margins for the Company. Net sales in the Company's wholesale division grew from $30.3 million in 1995 to $53.3 million in 1998, primarily due to an increased focus on large domestic and international accounts and expansion into new geographic markets. The Company opened showrooms in New York City in February 1997 and Chicago in February 1998 to support its Bargain Wholesale operation.

Adherence to Disciplined Cost Controls and Savvy Purchasing. The Company is able to provide its customers with significant value while maintaining strong operating margins through an adherence to a disciplined cost control program. The Company purchases merchandise at substantially discounted prices as a result of its buyers' knowledge, experience and negotiating ability and its established reputation among its suppliers. The Company applies this same approach to its relationships with other vendors and strives to maintain a lean operating environment focused on increasing net income.

Focus on Larger Stores in Convenient Locations. The Company's 99 Cents Only stores are conveniently located in freestanding buildings, neighborhood shopping centers (anchored by 99 Cents Only Stores or co-anchored with a supermarket and/or a drug store) or downtown central business districts where consumers are more likely to do their regular household shopping. The Company's 64 existing 99 Cents Only Stores average approximately 15,000 gross square feet. Since January 1, 1995, the Company has opened 35 new stores that average over 20,000 gross square feet and currently targets new store locations between 15,000 and 25,000 gross square feet. Universal's Only Deals and Odd's-N-Ends Stores currently average 10,700 gross square feet. The Company's larger 99 Cents Only Stores allow it to more effectively display a wider assortment of merchandise, carry deeper stock positions and provide customers with a more inviting and convenient environment that encourages customers to shop longer and buy more. The Company's decision to target larger stores reflects higher average annual net sales per store and operating income typically achieved by these stores.

Experienced Management Team and Depth of Employee Option Grants. 99 Cents Only Stores' management team has many years of retail experience and has demonstrated its skills through a proven track record of financial performance. The Company's management strongly believes that employee ownership of the Company's stock helps build employee pride in the stores that significantly contributes to the success of the Company and its operations. Accordingly, all members of management of the Company (other than David Gold, the Company's Chief Executive Officer, Howard Gold, Senior Vice President Distribution, Jeff Gold, Senior Vice President Real Estate and Information Systems, Eric Schiffer, Senior Vice President Operations and Finance and Karen Schiffer Senior Buyer) and all employees (part-time or full-time) with tenure of more than six months with the Company receive an annual grant of stock options. As of December 31, 1998, the Company's employees (other than executive officers) held options to purchase an aggregate of 2,015,675 shares, or over 8.2% of the fully-diluted shares of Common Stock outstanding.

Growth Strategy

Management believes that future growth will primarily result from new store openings facilitated by the following:

Southern California has Significant Potential for Growth. By continuing to focus 99 Cents Only Store openings in Southern California for the immediate future, the Company can leverage its brand awareness in the region and take advantage of its existing warehouse and distribution facility, regional advertising and other management and operating efficiencies. The Company's growth strategy in Southern California will focus on opening locations in existing markets as well as expanding into markets adjacent to those currently served. The Company opened it's first two 99 Cents Only Store in San Diego County in the fourth quarter of 1998. The Company has plans to open at least 13 net new 99 Cents Only Stores in 1999 (a net increase of 20%), all in the Southern California area. As of March 25, 1999, the Company had opened two new stores, and secured sites for five additional store locations. The Company intends to continue its planned store expansion over the next several years at a targeted rate of approximately 20% per year. The Company estimates that the Southern California market has the potential for over 199, 99 Cents Only Stores.

Portable Format Facilitates Geographic Expansion. The Company believes that its concept of consistently offering a broad selection of name-brand consumables, at value pricing, in a convenient store format is portable to most other densely populated areas of the country. With the Company's retail presence established in the upper Midwest, upstate New York and Texas and with distribution facilities in Minneapolis serving these stores, the Company expects to explore the potential for geographic expansion as opportunities present themselves in the next several years. The Company intends to focus on developing clusters of stores that can take advantage of its local warehouse and distribution facilities.

Acquisitions. The Company considers acquisition opportunities as they are presented to the Company and may make acquisitions of a chain, or chains, of clustered retail sites in densely populated regions. The Company believes that its acquisition of Universal in September 1998 satisfied this objective.

Recent Developments

In November 1997 the Company acquired common stock of Universal equal to 48% of the outstanding common stock. On September 16, 1998, the Company acquired an additional 4.3 million shares or approximately 46% and now owns 94% of the outstanding Common Stock of Universal. Pursuant to the exchange offer, the Company exchanged one share of its common stock for every 16 outstanding shares of Universal plus the associated common share purchase rights. The offer closed on September 16, 1998. In addition the Company's merger with Odd's-N-End's Inc. ("Odd's-N-End's") was complete on September 30, 1998. Together, these two companies operate 42 retail stores in Minnesota and the surrounding upper Midwest region, nine retail stores in Texas and 22 retail stores in upper New York State. The Company issued shareholders of Universal 336,986 shares of the Company's Common Stock and paid $843,243 to holders of Odd's-N-End's common stock.

Prior to September 16, 1998 the Company's ownership interest in Universal was accounted for using the equity method. The impact of the inclusion of Universal in the Company's financial statements for the nine months ended September 30, 1998 was a charge of $1.4 million. As of December 31, 1998, the Company has consolidated the results of operations of Universal with those of the Company for the period from September 17, 1998 to December 31, 1998. The Company recorded approximately $8.6 million in goodwill on its balance sheet, which will be amortized over 30 years and will result in increased amortization expense in future periods. Universal's business is seasonal. Historically, all of its earnings have been generated in the fourth quarter, and it has incurred losses during the first three quarters of the calendar year. In conjunction with the acquisition of Universal the Company retired Universal's revolving credit line which totaled approximately $12.5 million. The Company continues to support Universal by providing trade credit and other advances. Such amounts are provided from the Company's ongoing cash flows from operations and its existing working capital.

The Company's investment in Universal was motivated by an opportunity to apply the Company's core competencies to two under-performing retail chains which the Company believes have significant upside potential. Universal's strengths include its many attractive store locations, strong trade name identity and inventory of first-quality, close-out merchandise. In addition, Universal has built a strong management team led by its Chief Executive Officer, Richard Ennen, who was hired in September 1996 as Vice President of Merchandising and assumed his current position in February 1998, and a solid corporate infrastructure and operating systems. The Company believes Universal's historical performance has been impaired by a lack of capital, which has limited its access to merchandise and its ability to purchase merchandise at attractive prices, a failure to focus attention on store merchandising and layout to create an attractive store environment and a failure to identify and take advantage of cost saving opportunities.

Since the Company acquired Universal it has gained greater access to name-brand, close-out and regularly available goods, implemented more savvy purchasing procedures, and developed and begun to implement a new merchandising program that places greater emphasis on consumables and focuses on attractive, convenient store layouts. Further, Universal has determined to close unprofitable stores and has completed the consolidation of its three warehouse and distribution facilities into a single facility. In addition, Universal has identified several areas for cost savings, including freight and advertising. During 1998, Universal introduced a revised merchandising program in all of its stores to accommodate the 99 Cents Only Stores philosophy. The Company believes that its strong reputation among suppliers and the depth of its operating experience in the deep-discount industry has contributed to these changes. The Company and Universal continue to review Universal's operations to identify other opportunities for cost savings and improvements to operations. In addition, the Company and Universal are reviewing less profitable stores to determine stores that should be relocated or closed. Since December 31, 1998 the company has closed six stores. As of March 25, 1999 Universal now has a total of 69 Only Deals and Odd's-N-End's stores.

Universal's Only Deals and Odd's-N-End's stores will provide the Company a retail channel for merchandise at prices other than the Company's single price point and will enable the Company to increase the volume of merchandise sold by it. The Company believes that this greater distribution capability will provide the Company an opportunity to strengthen its relationship with its suppliers, increase the Company's exposure to opportunistic buying opportunities, allow the Company to capture a wider range of merchandise and enable the Company to take greater advantage of volume discounts. Further, the acquisitions allow the Company to diversify its geographic presence and provide the Company valuable experience in other merchandising formats. This geographic presence could serve as a basis for launching the Company's 99 Cents Only Stores retail format into these regions in future periods. The Company believes further opportunities exist for improving store level economics. In addition, it is anticipated that the acquisition will ultimately provide the combined businesses with opportunities to realize the efficiencies and synergies available by operating on a cooperative basis which include economies of scale in purchasing, insurance, marketing, advertising, human resources and administration.

Retail Operations

The Company's retail stores offer customers a wide assortment of regularly available consumer goods, as well as a broad variety of first-quality, close-out merchandise, generally at a significant discount from normal retail. All merchandise sold in the Company's 99 Cents Only Stores retail stores sells for 99 cents per item or two or more items for 99 cents. The Company strives to exceed its customers' expectations of the range and quality of name-brand consumables that can be purchased for 99 cents. Universal's Only Deals and Odd's-N-End's stores also sells merchandise at deep discounts within a similar range.

The following table sets forth relevant information with respect to the growth of the Company's existing 99 Cents Only Store operations (amounts in thousands, except sales per square foot):

	Year Ended December 31,				
	1994	1995	1996	1997	1998
99 Cents Only Stores net retail sales	$110,724	$121,998	$143,163	$186,024	$238,867
Universal retail sales (a)	-	-	-	-	$31,107
99 Cents Only Stores					

annual net sales growth rate	8.7%	10.2%	17.3%	29.9%	28.4%
99 Cents Only Stores store count at beginning of year	31	34	36	43	53
New stores	4	4	8	10	13
Stores closed	1(b)	2(c)	1(c)	-	2(c)
Universal stores (a)	-	-	-	-	75
Total store count at year end	34	36	43	53	139
Average 99 Cents Only Stores net sales per store open the full year(d)	$3,267	$3,467	$3,667	$3,750	$4,147
Estimated saleable square footage at year end for 99 Cents Only Stores	293,000	332,100	455,200	631,500	822,900
Average net sales per estimated saleable square foot(d)	$396	$397	$389	$354	$335
Change in comparable 99 Cents Only Stores net sales(e)	(1.4)%	(0.2)%	2.8%	1.5%	4.3%
Estimated saleable square footage at year end for Universal's stores	-	-	-	-	694,400

(a) Represents sales from the date of acquisition September 17, 1998 to December 31, 1998. As of March 25, 1999 Universal had closed 6 stores and now has a total of 69 stores. The Company has closed those stores that were performing below expectations or were in outlying areas and the leases were expiring.

(b) Store closed September 1994 due to fire.

(c) Stores closed due to relocation to a larger nearby site.

(d) For stores open for the entire fiscal year for 99 Cents Only Stores.

(e) 99 Cents Only Stores for the years 1994-1996 change in comparable stores net sales compares net sales for stores open for the entire two years compared. Commencing in 1997, change in comparable stores net sales compares net sales for all stores open at least 15 months.

Merchandising. All of the Company's stores offer a broad variety of first-quality, name-brand and other close-out merchandise as well as a wide assortment of regularly available consumer goods. The Company also carries a line of private label consumer products made exclusively for the Company. The Company believes that the success of its 99 Cents Only Stores concept arises from the value inherent in selling primarily name-brand consumables, most of which retails elsewhere from $1.19 to $9.99, for only 99 cents per item or group of items. The Company believes that this concept also applies to the Universal Only Deals and Odd's-N-End's stores. Each store typically carries over five thousand different stock keeping units ("SKUs"). The merchandise sold in the Company's stores primarily consists of a wide variety of basic consumer items including beverages and food, health and beauty aids and household products (cleaning supplies, paper goods, etc.). The stores also carry housewares (glassware, kitchen items, etc.), hardware, stationary and party goods, seasonal, baby products and toys, giftware, pet products and clothing. In the second and third quarters of 1997, the Company added a deli and frozen foods section to each store. None of the Universal stores carry deli or frozen products.

While each of the Company's stores regularly carry a variety of basic household consumer items, the stores differ from typical discount retail stores in that they do not continuously stock complete lines of merchandise. Although a majority of the merchandise purchased by the Company is available for reorder, the mix of specific brands of merchandise frequently changes, depending upon the availability of close-out and other special-situation merchandise at suitable prices. Since commencing its close-out purchasing strategy in 1976, the Company has not experienced difficulty in obtaining name-brand close-outs as well as reorderable merchandise at attractive prices. Management believes that continuously changing specific name-brands found in its stores from one week to the next encourages impulse and larger volume purchases, results in customers shopping more frequently and helps to create a sense of urgency, awareness and excitement. Unlike many discount retailers, the Company rarely imposes limitations on the quantity of specific items that may be purchased by a single consumer.

The Company targets value-conscious consumers from a wide range of socio-economic backgrounds with diverse demographic characteristics. Purchases are by cash, credit or debit card. The Company's stores do not accept checks or manufacturers' coupons. The Company's stores are open every day with opening hours designated to meet the needs of family consumers. The Company advertises that its stores are open "9:00 a.m. to 9:00 p.m., 9 days a week."

Store Size, Layout and Locations. The Company's 66 existing 99 Cents Only Stores are located in Southern California and average over 15,000 gross square feet. Since January 1, 1995, the Company has opened 35 new stores (including two relocations in 1995, one in 1996 and two in 1998) that average over 19,000 gross square feet and currently targets new store locations between 15,000 and 25,000 gross square feet. The Company's larger 99 Cents Only Stores allow it to more effectively display a wider assortment of merchandise, carry deeper stock positions and provide customers with a more inviting and convenient environment that encourages customers to shop longer and buy more. The Company's decision to target larger stores reflects higher average annual store revenues typically achieved by these stores. Universal's stores average 10,700 gross square feet and 9,100 saleable square feet. All of Universal's stores are leased.

The Company's stores are conveniently located in freestanding buildings, neighborhood shopping centers (anchored by 99 Cents Only Stores, a supermarket and/or a drug store) or downtown central business districts where consumers are more likely to do their regular household shopping. The stores are located primarily in more densely populated, demographically diverse neighborhoods. The Company's 66 existing 99 Cents Only Stores are located in five counties: 52 in Los Angeles County, nine in Orange County, two in San Bernardino County, one in Riverside County and two in San Diego County. Universal's 69 stores at March 25, 1999 consist of 22 Odd's-N-End's stores located in upstate New York, 39 stores in the upper mid west and 8 stores in Texas.

The Company's stores are attractively merchandised, brightly lit, well-maintained, "destination" locations. The layout of each of the Company's stores is customized to the actual size and configuration of the individual location. The interior of each store is, however, designed to reflect a uniform format, like a typical supermarket, featuring attractively displayed products in windows, consistent merchandise display techniques, bright lighting, lower shelving height that allows unobstructed visibility throughout the store, distinctive color scheme, interior and exterior signage and customized check-out counters, floors, price tags, shopping carts and shopping bags. The Company emphasizes a strong visual presentation in all key traffic areas of the store. Merchandising displays are maintained throughout the day, change frequently and often incorporate seasonal themes. The Company believes that due to the continuously changing brand-names, the lower shelving height and the absence of aisle description signs, the typical customer tends to shop the whole store.

The Company leases 61 of its 66 99 Cents Only Stores retail locations. The Company typically seeks leases with an initial five to ten year term with one or more five-year options. See "Item 2 Properties." The Company identifies potential sites through a network of contacts within the brokerage and real estate communities, information provided by vendors, customers and employees and through the efforts of the Company's real estate department. All of Universal's Only Deals and Odd's-N-End's stores are leased with remaining lease terms extending one to six years. Most leases have renewal options ranging from three to ten years.

As part of its strategy to expand retail operations, the Company has, at times, opened 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 effect on comparable stores net sales as some customers migrated from the existing store to the close-by larger new store. Except for four relocations to larger, nearby sites and one store closure as a result of a fire, the Company has never closed one of its 99

Cents Only Stores.

Store Management. Substantially all merchandise decisions with respect to pricing and advertising are made at the Company's headquarters. The Company employs ten district managers responsible for store operations. Each district manager is responsible for up to seven stores. Reporting to each district manager is one merchandising supervisor responsible for store merchandising in that district. The store managers also report to the district manager. These district managers are supervised by the Company's Vice President of Retail Operations. District managers visit each store in their district at least twice a week and focus on the implementation of the Company's policies, operations and merchandising philosophy. District managers also help train store management and assist store management with scheduling. The Vice President of Retail Operations also supervises a cashiers training school located at the Company's corporate offices. Each merchandising supervisor and his crew (usually six to ten experienced stock people) visit each of the stores at least once a week and help the store managers to maintain and improve the appearance of the sales floor, move merchandise sections, organize the stockroom and train store personnel. Typically the Company's stores are staffed with a manager and two or three assistant managers. Store managers are responsible for assessing their respective store's stocking needs and ordering accordingly.

Advertising. Advertising expenditures were $1.5 million, $2.0 million and $3.1 million for 1996, 1997 and 1998, respectively, or 0.8%, 0.9% and 1.1% of net sales, respectively. The Company manages its advertising without the assistance of an outside agency. The Company allocates the majority of its advertising budget to newspaper and radio advertising. The Company's advertising strategy emphasizes the offering of nationally recognized, name-brand merchandise at significant savings. The Company minimizes its advertising expenditures by an efficient implementation of its advertising program combined with word-of-mouth publicity, locations with good visibility and efficient signage. Because of the Company's distinctive grand opening promotional campaign, which includes the sale of nine televisions for 99 cents each and nine microwave ovens for 99 Cents each, grand openings often attract long lines of customers and receive media coverage. The Company believes that one of its biggest challenges is attracting affluent customers to shop its stores. The Company also uses a direct mail campaign for new customers who are homeowners in more upscale neighborhoods. The Company believes the direct mail campaign has been successful in attracting new customers.

Bargain Wholesale

In 1998, Bargain Wholesale sold merchandise to over 999 customers, including other wholesalers, small local retailers, large regional and national retailers and exporters. During 1998, no single customer accounted for more than 3% of Bargain Wholesale's net sales. In 1998 Bargain Wholesale shipped $12.0 million of merchandise to Universal. These shipments were billed at cost and were shipped during the period from January through September 16, 1998, prior to the acquisition of the majority interest in Universal. The Company advertises its wholesale operations primarily through direct mail. The Company plans to continue to expand its wholesale operations by continuing its focus on the needs of large domestic and international accounts, expansion into new geographic markets, increasing its marketing and promotional programs, increasing the number of trade shows at which it exhibits, focusing on its recently opened showrooms in Chicago and New York City, enhancing customer service and aggressively contacting its customers on a more frequent basis through telephone, facsimile and mail.

The Company's wholesale product line is substantially similar to its retail product line, although the Company has seen strong growth in reorderable and private label merchandise within its wholesale operations. Bargain Wholesale has recently begun a program to provide merchandise for the "dollar" promotional aisles of certain supermarkets and drugstores. The Company offers 15-day payment terms to its Bargain Wholesale customers who meet the Company's credit standards. Customers located abroad, certain smaller customers or others who do not meet the Company's credit standards must pay cash upon pickup or before shipment of merchandise.

Bargain Wholesale complements the Company's retail operations by allowing the Company to purchase in larger volumes at more favorable pricing, to be exposed to a broader selection of opportunistic buys and to generate additional net sales with relatively small incremental increases in operating expenses contributing to strong overall margins for the Company. Bargain Wholesale also allows the Company to purchase goods which it would not otherwise purchase for distribution through its 99 Cents Only Stores and provides the Company with a channel by which it may distribute merchandise at prices other than 99 Cents.

Bargain Wholesale conducts its wholesale operations through its 15,000 square foot product showroom located at the Company's warehouse and distribution facility. The Company's showrooms in New York and Chicago also continue to support Bargain Wholesale's operations.

Purchasing

The Company's purchasing department staff consists of fourteen buyers managed by the Company's Vice President of Purchasing. The Company's Chief Executive Officer also participates in the Company's purchasing activities. The Company's buyers purchase for 99 Cents Only Stores, Universal and Bargain Wholesale. The Company believes a primary factor contributing to its success is its ability to identify and take advantage of opportunities to purchase merchandise with high customer interest at lower than regular wholesale prices. The Company purchases most of its merchandise directly from the manufacturer. The Company's other sources of merchandise include wholesalers, manufacturers' representatives, importers, barter companies, auctions, professional finders and other retailers. The Company develops new sources of merchandise primarily by attending industry trade shows, advertising, marketing brochures and referrals.

The Company has no continuing contracts for the purchase of merchandise and must continuously seek out buying opportunities from both its existing suppliers and new sources. No single supplier accounted for more than 2% of the Company's total purchases in 1998. During 1998, the Company purchased merchandise from more than 999 suppliers, including Colgate-Palmolive Company, Cheseborough Ponds, The Dial Corp., Eveready Battery Company Inc., General Electric Company, Gerber Products Company, The Gillette Company, Hershey Foods Corp., Johnson & Johnson, Kraft General Foods Inc., Lever Brothers Company, Mattel Inc., The Mead Corporation, Nabisco Inc., Nestle, The Pillsbury Company, The Procter & Gamble Company, Revlon Inc. and SmithKline Beecham Corporation. Many of these companies have been supplying products for the Company in excess of four years.

A significant portion of the merchandise purchased by the Company in 1998 was close-out or special-situation merchandise. The Company has developed strong relationships with many manufacturers and distributors that recognize that their special-situation merchandise can be moved quickly through the Company's retail and wholesale distribution channels. The sale of close-out or special-situation merchanidse develops in response to the need of manufacturers, wholesalers and others to distribute merchandise outside their normal channels. The Company's buyers search continuously for close-out opportunities. The Company's experience and expertise in buying merchandise has enabled it to develop relationships with many manufacturers that often offer some or all of their close-out merchandise to the Company prior to attempting to sell it through other channels. The key elements to these supplier relationships include the Company's (i) ability to make immediate buy decisions, (ii) experienced buying staff, (iii) willingness to take on large volume purchases and take possession of merchandise immediately, (iv) ability to pay cash or accept abbreviated credit terms, (v) reputation for prompt payment, (vi) commitment to honor all issued purchase orders and (vii) willingness to purchase goods close to a target season or out of season. The Company's relationship with its suppliers is further enhanced by its ability to minimize channel conflict for the manufacturer by quickly selling name-brand merchandise without, if requested by the supplier, advertising or wholesaling the item. The Company believes this reputation along with its well-maintained, attractively merchandised stores have contributed to a reputation among suppliers for protecting their brand image.

In 1998, reorderable merchandise accounted for a majority of the Company's purchases. The Company's strong relationships with many manufacturers and distributors, along with its ability to purchase in large volumes, also enable the Company to purchase reorderable name-brand goods at discounted wholesale prices. The Company focuses its purchases of reorderable merchandise on a limited number of SKUs, which allows the Company to make purchases in large volumes.

The Company is continuously developing new private label consumer products to broaden the assortment of merchandise that is consistently available. The Company also has an in-house import operation which primarily purchases reorderable merchandise. The Company imports products mainly from Southeast Asia. Merchandise directly imported by the Company accounted for approximately 7% of total merchandise purchased in 1998. The Company primarily imports merchandise in product categories which are not brand sensitive to consumers such as kitchen items, housewares, toys, seasonal products, petcare and hardware.

Warehousing and Distribution

The Company maintains an 880,000 square foot, single level warehouse and distribution facility located on approximately 23 acres in the City of Commerce, California. The Company's headquarters are also located in this facility. The site is located near downtown Los Angeles and has close access to the Southern California freeway and rail systems and the ports of Los Angeles and Long Beach. The warehouse has 129 dock doors available for receiving or shipping, over 25 dock levers and, new racking with over 10,000 pallet positions. Most of the Company's merchandise is shipped by truck directly from manufacturers and other suppliers to the Company's warehouse and distribution facility. As part of its distribution network, the Company owns a fleet of 24 tractors and 44 trailers which are primarily used to deliver merchandise to its stores. Full truck deliveries are made from its distribution center to each store typically three times a week. Product is delivered to a store the day after the store places a scheduled order. Most of the merchandise is requested by the store in conjunction with the Company's buyers (i.e., ordered by the store manager) as opposed to being determined by the distribution center (i.e., sent by order of the Company's distribution personnel). The Company attempts to optimally utilize its fleet by a combination of filling outbound trucks to capacity and instituting a backhaul program whereby products are picked up from suppliers in conjunction with deliveries to stores in the same general area. Backhauls accounted for approximately half of all merchandise picked up by the Company's trucks. The Company also uses its own vehicles to pick up certain shipments at local ports and rail yards. The size of the Company's distribution center allows storage of bulk one-time close-out purchases and seasonal or holiday items without incurring additional costs. The Company believes that its current warehouse and distribution facility will be able to support distribution to approximately 150 additional stores in Southern California. The Company also maintains a 210,000 square foot distribution facility in New Hope, Minnesota, which serves as a principal distribution facility for Universal. This lease expires in July 2000. There can be no assurance that the Company's existing warehouse will provide adequate storage space for the Company's long-term storage needs.

Information Systems

The Company's business is currently supported by a standard accounting and financial reporting system utilizing a PC-based local area network (LAN) and a separate partially customized inventory control system processed by a Hewlett-Packard RISC-based computer. The Company's inventory management system is designed to track all inventory received at the Company's distribution center and shipped to each retail stores location or Bargain Wholesale customer. The Company's systems allow management to monitor inventory and assist store operations. In light of the Company's continuously changing merchandise, single price point and other factors, the Company has determined not to install a point of sale system in its 99 Cents Only Stores. The retail order processing system has been designed to expedite the processing of retail store orders for both store and warehouse personnel. Buyers use inventory and historical shipment information to assist in reordering and inventory planning functions. The Company employs an accounts payable and general ledger software package that shares information with the inventory management, order processing and accounts receivable system. This system is currently being updated to a network windows version and will integrate Universal's operations as well. The Company has implemented various reporting tools to support the timely generation of financial and managerial reports from the Company's information systems. The Company has installed personal computers in each 99 Cents Only Store location for use with a popular suite of retail applications purchased in late 1997. The Company internally refers to this store-level personal computer implementation as its "C.E.N.T.S." system. The first phase of C.E.N.T.S., which includes electronic mail, electronic forms and time and attendance module has been fully implemented as of June 1998. The second phase of C.E.N.T.S., which includes sales forecasting and labor scheduling modules have been implemented and is being rolled out to the stores beginning in the second quarter of 1999. Future modules will include daily sales reporting and sales/payroll analysis, and may include certain store-level human resources functions. The Company also embarked on it's implementation of store ordering system to allow for a more efficient order processing using handheld units and processed through it's C.E.N.T.S. system. Universal uses NCR scanning equipment in its stores to track sales, SKU level inventory and markdowns. This POS system provides real time information to manage day to day operations at Universal.

The Company's accounting and management information systems are overseen by a director of information systems who manages a staff of four employees. The Company believes that its accounting and management information system and inventory control system adequately provide for its current needs. The Company intends to continue to update and enhance its systems in order to improve capabilities and provide for planned growth. If the Company should experience faster than anticipated growth, the Company may be required to install a new management information or inventory control system or undergo a significant modification of its current systems to accommodate a larger business. The Company has completed an assessment and has determined that it will be required to modify or replace portions of its software so that its computer systems will function properly with respect to dates in the year 2000 and thereafter. The project cost is not anticipated to have a material effect on the results of operations and is scheduled to be completed no later than mid-1999.

Competition

The Company faces competition in both the acquisition of inventory and sale of merchandise from other wholesalers, discount stores, single price point merchandisers, mass merchandisers, food markets, drug chains, club stores and other retailers. Industry competitors also include a large number of privately held companies and individuals. In some instances these competitors are also customers of the Company's Bargain Wholesale division. There is increasing competition with other wholesalers and retailers, including other deep-discount retailers, for the purchase of quality close-out and other special-situation merchandise. Some of these competitors have substantially greater financial resources and buying power than the Company. The Company's ability to compete will depend on many factors including the success of its purchase and resale of such merchandise at lower prices than the competition. The Company may face intense competition in the future from new entrants in the deep-discount retail industry, among others, that could have an adverse effect on the Company's business and results of operations.

Employees

At December 31, 1998, the Company had 4,433 employees. 99 Cents Only Stores had 2,583 employees (2,190 in its retail operation, 296 in its warehouse and distribution facility, 83 in its corporate offices and 14 in its wholesale division), of which approximately 270 are part-time employees. None of the Company's employees is party to a collective bargaining agreement. The Company considers relations with its employees to be good. The Company offers certain benefits, including health insurance and 401(k) benefits to its full time employees. All members of management of the Company (other than David Gold, the Company's Chief Executive Officer, Howard Gold, Senior Vice President Distribution, Jeff Gold, Senior Vice President Real Estate and Information Systems, Eric Schiffer, Senior Vice President Operations and Finance and Karen Schiffer Senior Buyer) and all employees, part-time or full-time, with tenure of more than six months with the Company receive an annual grant of stock options. Also, Universal has 1850 employees 124 in warehouse and administration and 1,726 are employed in the retail operations.

Trademarks and Service Marks

"99 Cents Only Stores", "99 Cents", Only Deals and Odd's-N-End's are registered service marks of the Company and are listed on the United States Patent and Trademark Office Principal Register. Bargain Wholesale is a service mark used by the Company. Management believes that the Company's trademarks, service marks and trade names are an important but not critical element of the Company's merchandising strategy.

Environmental Matters

Under various federal, state and local environmental laws and regulations, a current or previous owner or occupant of real property may become liable for the costs of removal or remediation of hazardous substances at such real property. Such laws and regulations often impose liability without regard to fault. As of March 25, 1999 the Company leases 130 of its 135 existing stores, as well as its warehouse and distribution facilities (where its executive offices are located). The Company currently intends to exercise an option to purchase the warehouse and distribution facility in Commerce, California, in December 2000, the end of the lease term. In connection with such properties, the Company could be held liable for the costs of remedial actions with respect to hazardous substances. In addition, the Company operates one underground diesel storage tank and one above-ground propane tank at its warehouse and distribution facility. Although the Company has not been notified of, and is not otherwise aware of, any specific current environmental liability, claim or non-compliance, there can be no assurance that the Company will not be required to incur redemption or other costs in the future in connection with its leased properties or its storage tanks or otherwise. In the ordinary course of its business, the Company from time to time handles or disposes of ordinary household products that are classified as hazardous materials under various federal, state and local environmental laws and regulations. The Company has adopted policies regarding the handling and disposal of these products, and has implemented a training program for employees on hazardous material handling and disposal. There can be no assurance, however, that such policies or training will be successful in assisting the Company in avoiding violations of environmental laws and regulations relating to the handling and disposal of such products in the future.

Item 2. Properties

As of March 25, 1999, the Company leased 130 of its 135 store locations. The Company currently leases 13 store locations and a parking lot associated with one of these stores from the Gold Family.

Management believes that the Company's stable operating history, excellent credit history and ability to generate substantial customer traffic give the Company significant leverage when negotiating lease terms. Most of the Company's leases provide for fixed rents, subject to periodic adjustments. Certain of the Company's store leases contain provisions that grant the Company a right of first refusal to acquire the subject site.

The following table sets forth, as of the date of this filing, information relating to the expiration dates of the Company's current retail stores leases assuming the exercise of all options to extend:

Expiring 1999	Expiring 2000-2001	Expiring 2002-2004	Expiring 2005 and Beyond
10(a)	43	48	29

(a) Includes six stores leased on a month to month basis.

The Company has purchased five locations, one opened in each of November 1996, February 1997, November 1997, September 1998 and March 1999. The Company may also purchase other locations in the future.

The Company leases its warehouse and distribution facilities. The Company's executive offices are also located in the Commerce California facility. In December 1993, the Company entered into a seven year triple net lease agreement with a purchase option, which is accounted for on the Company's financial statements as a capitalized lease obligation. The lease included the Company's initial payment of $2.75 million and eighty-four monthly payments of $70,000. As part of the lease agreement, the Company received $500,000 in 1993 and $1.0 million in 1994 to apply to renovation costs. The facility's fire prevention and lighting systems were completely upgraded. A state-of-the-art sprinkler system, hundreds of new smoke-vents (skylights) and energy efficient lighting with motion detectors were installed. The Company has the option to purchase the property for $10.5 million at the end of the lease and the Company currently intends to exercise the option. If the Company does not exercise the purchase option, the Company will be subject to a $7.6 million penalty. The Company also maintains a 210,000 square foot distribution facility in New Hope, Minnesota, which serves as a principal distribution facility for Universal. This lease requires minimum monthly payments of $48,000 and expires in July 2000.

Item 3. Legal Proceedings

The Company is periodically subject to legal actions which arise in the ordinary course of its business. The Company does not believe that any pending action is material to its results of operations or financial condition.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Common Stock is traded on the New York Stock Exchange under the symbol "NDN." The following table sets forth, for the calendar periods indicated, the high and low closing prices per share of the Common Stock as reported by the New York Stock Exchange. The Common Stock was not publicly traded prior to the Company's initial public offering on May 23, 1996. All stock prices have been restated to reflect two five-for-four stock splits effected in the form of stock dividends which were paid on November 28, 1997 and November 12, 1998.

	Price Range High	Low
1997:		
First Quarter	$12.87	$10.24
Second Quarter	19.28	12.40
Third Quarter	22.07	17.28
Fourth Quarter	24.45	20.48
1998:		
First Quarter	$31.60	$21.60
Second Quarter	34.66	27.15
Third Quarter	37.45	28.10
Fourth Quarter	49.13	29.40
1999:		
First Quarter through March 25, 1999	49.13	39.75

The closing price as reported on March 25, 1999 on the New York Stock Exchange is set forth on the cover page of this Form 10K. As of March 25, 1999, the Company had approximately 4,441 holders of the Common Stock including 457 shareholders of record.

The Company has not paid any cash dividends with respect to the Common Stock. The Company presently intends to retain future earnings to finance its development and expansion and therefore does not anticipate the payment of any cash dividends in the foreseeable future. Payment of future dividends, if any, will depend upon future earnings and capital requirements of the Company and other factors, which the Board of Directors considers appropriate.

Item 6. Selected Financial Data

The following table sets forth selected financial and operating data of the Company for the periods indicated. The following selected statement of operations data for each of the three years ended December 31, 1996, 1997, and 1998, and the balance sheet data as of December 31, 1997 and 1998 are derived from the financial statements and the notes thereto included elsewhere herein audited by Arthur Andersen LLP, independent public accountants, as set forth in their report also included elsewhere herein.

The selected statements of operations data for the years ended December 31, 1994 and 1995, and the balance sheet data as of December 31, 1994, 1995 and 1996 are derived from financial statements audited by Arthur Andersen LLP not included herein. The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements of the Company and notes thereto included elsewhere in this report.

	Year Ended December 31, 1994	1995	1996	1997	1998
	(Amounts in thousands, except per share and operating data)				
Statement of Operations Data:					
Net sales:					
99 Cents Only Stores	$110,724	$121,998	$143,163	$186,024	$238,867
Universal	-	-	-	-	31,107
Other retail sales(a)	2,097	492	-	-	-
Bargain Wholesale	18,916	30,337	40,480	44,831	53,299
Total	131,737	152,827	183,643	230,855	323,273
Cost of sales	88,045	102,160	120,922	146,797	199,618
Gross profit	43,692	50,667	62,721	84,058	123,666
Selling, general and administrative expenses:					
Operating expenses	31,319	32,169	37,683	49,850	73,941
Depreciation and amortization	1,342	1,640	2,009	2,989	5,053
Total operating expenses	32,661	33,809	39,692	52,839	78,994
Operating income	11,031	16,858	23,029	31,219	44,661
Special litigation provision reversal(b)	(2,900)	-	-	-	-
Interest (income) expense, net	764	755	(126)	(855)	(1,403)

Equity loss and minority interest	-	-	-	-	1,429
Income before provision for income taxes	13,167	16,103	23,155	32,074	44,635
Provision for income taxes(c):					
Pro forma	5,163	6,509	9,453	-	-
Historical	62	156	2,418	13,124	17,942
Net income(c):					
Pro forma	$8,004	$9,594	$13,702	-	-
Historical	$13,105	$15,947	$20,737	$18,950	$26,693
Earnings per common share(c)(h):					
Pro forma_Basic	$0.51	$0.62	$0.68	-	-
Pro forma_Diluted	0.51	0.62	0.62	-	-
Historical_Basic	0.85	1.02	1.03	$0.82	$1.11
Historical_Diluted	0.85	1.02	0.94	0.81	1.09
Weighted average number of common shares outstanding:					
Pro forma_Basic	15,514	15,514	20,129	-	-
Pro forma_Diluted (d)	15,514	15,514	21,999	-	-
Historical_Basic	15,514	15,514	20,129	23,178	24,022

(Continued from previous page)

Company Operating Data:					
Sales Growth					
99 Cents Only Stores	8.7%	10.2%	17.3%	29.9%	28.4%
Universal	-	-	-	-	-
Bargain Wholesale	4.9	60.4	33.4	10.8	18.9
Total Company sales	7.1	16.0	20.2	25.7	40.0
Gross margin	33.2	33.2	34.2	36.4	38.3
Operating margin	8.4	11.0	12.6	13.5	13.8
Net income margin:					
Pro forma	6.1	6.3	7.5	_	_
Historical	9.9	10.4	11.3	8.2	8.3

Retail Operating Data(e):					
99 Cents Only Stores at end of period	34	36	43	53	64
Universal stores end of period	-	-	-	-	75
Change in comparable stores net sales 99 Cents Only Stores	(1.4)%	(0.2)%	2.8%	1.5%	4.3%
Change in comparable stores net sales Universal (f)	-	-	-	-	10.4%
Average net sales per store open the full year 99 Cents Only Stores	$3,267	$3,467	$3,667	$3,750	$4,147
Average net sales per estimated saleable square foot 99 Cents Only Stores (g)	$396	$397	$389	$354	$335
Estimated saleable square footage at year end 99 Cents Only Stores	293,000	332,100	455,200	631,500	822,900
Estimated saleable square footage at year end for Universal's stores	-	-	-	-	694,400

	As of December 31, 1994	1995	1996	1997	1998
Balance Sheet Data:					
Working capital	$24,713	$28,690	$58,822	$60,791	$110,510
Total assets	51,419	57,598	98,997	119,443	198,123
Long-term debt	_	_	_	_	_
Capital lease obligation, including current portion	10,548	9,977	9,366	8,709	8,260
Total shareholders' equity	30,811	35,558	76,505	96,308	164,366

(a) The Company operated other stores during the periods presented under different trade names pending conversion to 99 Cents Only Stores format or their eventual closing. Only one such store was operated by the Company in 1995 and that store was closed in May 1995.

(b) In 1993, the Company provided a reserve of $3.1 million for estimated litigation and interest costs. As a result of a settlement of this litigation in 1995, $200,000 was charged to the reserve and the remaining $2.9 million was included in income in 1994.

(c) Prior to May 1, 1996 the Company was treated as an S corporation for federal and state income tax purposes. The presentation for 1993-1996 reflects a pro forma provision for income taxes as if the Company had always been a C corporation, at an assumed effective tax rate of 41.0%, plus the effect of deferred taxes and tax credits.

(d) Diluted weighted average common equivalent shares in 1996 include 1,362,000 shares to fund certain notes issued and dividends payable declared to then existing shareholders, in connection with the termination of the Company's status as an S corporation.

(e) Includes retail operating data solely for the Company's 99 Cents Only Stores.

(f) For the years 1993-1996, change in comparable stores net sales compares net sales for stores open the entire two periods compared. Commencing in 1997, change in comparable stores net sales compares net sales for all stores open at least 15 months.

(g) Computed based upon estimated total saleable square footage of stores open for the entire period.

(h) All earnings per share amounts have been restated to reflect the adoption of SFAS No. 128, "Earnings per Share," effective December 15, 1997. For further discussion of the change in accounting, refer to Note 4 of the Notes to the Financial Statements.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in connection with "Item 6_Selected Financial Data," and "Item 8_Financial Statements."

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 location and as of March 25, 1999, operates a chain of 66 deep-discount 99 Cents Only Stores and 69 Universal, Only Deals and Odd's-N-End's stores. The Company's growth during the last three years has come primarily from new store openings and growth in its Bargain Wholesale division. The Company opened eight, ten and thirteen stores in 1996, 1997 and 1998, respectively (seven, ten and eleven respectively, net of relocated stores). The Company opened two stores in the first three months of 1999, one in Los Angeles, California and one in Van Nuys, California and plans to open an additional 11 net stores during the remainder of the year. Of the additional stores planned for 1999, the Company has secured sites for six additional store locations and has five additional locations in escrow to acquire the leasehold interest.

Bargain Wholesale's growth over the three years ended December 31, 1998 was primarily attributable to an increased focus on large domestic and international accounts and expansion into new geographic markets. The Company generally realizes a lower gross profit margin on Bargain Wholesale's net sales compared 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.

Comparable stores net sales improved in 1996, 1997 and 1998 after declining during 1994 and 1995. The Company believes that this trend has resulted in part from its expansion strategies. In the past, 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.

During the three years in the period from January 1, 1996 to December 31, 1998, average net sales per estimated saleable square foot (computed on 99 Cents Only Stores open for a full year) declined from $397 per square foot to $335 per square foot. This trend reflects the Company's determination to target larger locations for new store development. Existing stores average approximately 15,000 gross square feet. Since January 1, 1995, the Company has opened 35 new stores (including two relocations in 1995, one in 1996 and two in 1998) that average over 19,000 gross square feet. The Company currently targets new store locations between 15,000 and 25,000 gross feet. Although it is the Company's experience that larger stores generally have lower average net sales per square foot than smaller stores, larger stores generally achieve higher average annual store revenues and operating income.

99 Cents Only Stores has increased its net sales, operating income and net income in each of the last five years. In 1998 it had net sales of $323.3 million, operating income of $44.7 million and net income of $26.7 million, representing a 40.0%, 43.1% and 40.9% increase over 1997, respectively. From 1994 through 1998, the Company had a CAGR in net sales, operating income and net income of 25.5%, 42.0% and 35.5%, respectively.

Recent Developments

In November 1997 the Company acquired common stock of Universal equal to 48% of the outstanding common stock. On September 16, 1998, the Company acquired, pursuant to an exchange offer, an additional 4.3 million shares or approximately 46% and now owns 94% of the outstanding Common Stock of

Universal. Pursuant to the exchange offer, the Company exchanged one share of its common stock for every 16 outstanding shares of Universal plus the associated common share purchase rights. The offer closed on September 16, 1998. In addition the Company acquired Odd's-N-End's by merger on September 30, 1998. Together, these two companies operate 42 retail stores in Minnesota and the surrounding upper Midwest region, nine retail stores in Texas and 22 retail stores in upper New York State. The Company issued shareholders of Universal 336,986 shares of the Company's Common Stock and paid approximately $843,243 to holders of Odd's-N-End's common stock.

Prior to September 16, 1998 the Company's ownership interest in Universal was accounted for using the equity method. The impact of the inclusion of Universal in the Company's financial statements for the nine months ended September 30, 1998 was a charge of $1.4 million. As of December 31, 1998, the Company consolidated the results of operations of Universal with those of the Company for the period from September 17, 1998 to December 31, 1998. The Company recorded approximately $8.6 million in goodwill on its balance sheet, which will be amortized over 30 years and will result in increased amortization expense in future periods. Universal's business is seasonal. Historically, all of its earnings have been generated in the fourth quarter, and it has incurred losses during the first three quarters of the calendar year. In conjunction with the acquisition of Universal the Company retired Universal's revolving credit line which totaled approximately $12.5 million. The Company continues to support Universal by providing trade credit and other advances. Such amounts are provided from the Company's ongoing cash flows from operations and its existing working capital.

The Company has made in this Form 10-K forward-looking statements within the meaning of Section 27A of the Securities Act 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". 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 Company's ability to integrate Universal and Odd's-N-End's and to operate their stores at multiple price points and in different geographic locations, (iii) the orderly operation of the Company's receiving and distribution process, (iv) inflation, consumer confidence and other general economic factors, (v) the availability of adequate inventory and capital resources, (vi) the risk of a disruption in sales volume in the fourth quarter and other seasonal factors as discussed in "_Seasonality and Quarterly Fluctuations," (vii) dependence on key personnel and control for the Company by existing shareholders and (viii) increased competition from new entrants into the deep-discount retail industry. 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.

Results of Operations

The following table sets forth, for the periods indicated, certain selected income statement data, including such data as a percentage of net sales:

	Years Ended December 31, 1996 (Amounts in thousands)		1997		1998	
Net sales:						
99 Cents Only Stores	$143,163	78.0%	$186,024	80.6%	$238,867	73.9%
Universal	-	-	-	-	31,107	9.6
Bargain Wholesale	40,480	22.0	44,831	19.4	53,299	16.5
Total	183,643	100.0	230,855	100.0	323,273	100.0
Cost of sales	120,922	66.8	146,797	63.6	199,618	61.7
Gross profit	62,721	34.2	84,058	36.4	123,666	38.3
Selling, general and administrative expenses:						
Operating expenses	37,683	20.5	49,850	21.6	73,941	22.9
Depreciation and amortization	2,009	1.1	2,989	1.3	5,053	1.6
Total	39,692	21.6	52,839	22.9	78,994	24.5
Operating income	23,029	12.6	31,219	13.5	44,661	13.8
Interest (income) expense, net	(126)	-	(855)	(0.4)	(1,403)	(0.4)
Equity loss and minority interest	-	-	-	-	1,429	0.4
Income before provision for income taxes	23,155	12.6	32,074	13.9	44,635	13.8
Provision for income taxes(a):						
Pro forma	9,453	5.1	-	-	-	-
Historical	2,418	1.3	13,124	5.7	17,942	5.5

Net income(a):						
Pro forma	$13,702	7.5%	-	-	-	-
Historical	$20,737	11.3%	$18,950	8.2%	$26,693	8.3%

(a) Reflects a pro forma provision for federal income taxes in 1995 and 1996. Effective May 1, 1996 the Company changed in form from an S corporation to a C corporation, a change that affected its operations and financial condition by an increase in the level of federal and state income taxes. As an S corporation, the Company's income, whether or not distributed, was taxed at the shareholder level for federal income tax purposes. For California franchise tax purposes, S corporations were taxed at 1.5% of taxable income in 1995 and 1996. Currently, the top federal tax rate for C corporations is 35% and the corporate tax rate in California is 8.84%. The pro forma provision for income taxes in the accompanying selected income statement data for the Company shows results as if the Company had always been a C corporation and had adopted Statement of Financial Accountings Standards No. 109 "Accounting for Income Taxes" prior to January 1, 1991. The change in form has affected the earnings and cash flow of the Company.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Net Sales. Total net sales increased $92.4 million, or 40.0%, from $230.9 million in 1997 to $323.3 million in 1998. 99 Cents Only Stores net sales increased approximately $52.8 million, or 28.4%, from $186.0 million in 1997 to $238.9 million in 1998. Universal accounted for $31.1 million of the $92.4 million increase in net sales from the date of acquisition (September 16, 1998 to December 31, 1998). Bargain Wholesale net sales increased approximately $8.5 million, or 18.9%, from $44.8 million in 1997 to $53.3 million in 1998. There were no other retail operations in 1998. The increase in 99 Cents Only Stores net sales was attributed to the net effect of 11 stores opened in 1998 and the full effect of 10 stores opened in 1997. Comparable stores net sales increased 4.3%, or $7.1 million, from 1997 to 1998. The increase in Bargain Wholesale net sales was primarily attributed to an increased focus on large international and domestic accounts and expansion into new geographic markets. Offsetting these positive developments was the adverse effect of the slow-down in shipments to export brokers.

Gross profit. Gross profit, which consists of total net sales, less cost of sales, increased approximately $40.0 million, or 47.1%, from $84.1 million in 1997 to $123.7 million in 1998. The increase in gross profit dollars was primarily due to higher net sales. As a percentage of net sales, gross profit improved from 36.4% in 1997 to 38.3% in 1998 reflecting the effect of a 5 to 1 ratio in 1998 of retail sales, versus wholesale sales. The ratio in 1997 was 4 to 1, retail versus wholesale. The consolidation of Universal retail, during the fourth quarter of 1998 also contributed to this increase.

Selling, general and administrative. Selling, general and administrative expenses ("SG&A"), which include operating expenses and depreciation and amortization, increased $26.2 million, or 49.5%, from $52.8 million in 1997 to $79.0 million in 1998. The consolidation of Universal during the fourth quarter accounted for 46% of the dollar increase. The remaining dollar increase over 1997 is associated with 1998 new store growth and the full year effect of 1997 new stores. SG&A increased as a percentage of net sales from 22.9% in 1997 to 24.4% in 1998. The increase as a percentage of net sales is primarily all due to the consolidation of Universal for the full fourth quarter. The retail operating costs including rent, freight and advertising, for Universal are greater as a percentage of sales because of the geographic dispersion of the retail stores. In addition, the minimum wage in California increased to $5.75 per hour in March 1998.

Operating income. Operating income increased $13.4 million, or 43.1%, from $31.2 million in the 1997 period to $44.7 million in 1998. Operating income increased as a percentage of net sales from 13.5% in 1997 to 13.8% in 1998 primarily due to the increase in gross margin as discussed above.

Interest (income) expense. Interest (income) expense relates to the interest income on the Company's marketable securities, net of interest expense on the Company's capitalized warehouse lease. The Company had no bank debt during 1998. Interest income earned on the Company's marketable securities was $2.2 million in 1998. At December 31, 1998, the Company held $43.9 million in short-term investments and $2.7 million in long-term investments. The Company's short-term investments are comprised primarily of investment grade federal and municipal bonds and commercial paper, all with short-term maturities. The Company generally holds investments until maturity.

Equity loss and Minority Interest. The equity loss represents the Company's share of Universal's loss from January 1, 1998 through September 16, 1998. During this time the Company had a 48 percent ownership interest in Universal. On September 17, 1998 the Company increased its Universal ownership to 94 percent. The minority interest represents the income attributable to the 6 percent outside ownership of Universal.

Provision for income taxes. The provision for income taxes in 1998 was $17.9 million, or 5.6% of net sales, compared to 13.1 million, or 5.7% of net sales, in 1997. The effective combined federal and state rates of the provision for income taxes were 40.2% and 40.9% in 1998 and 1997, respectively. The effective combined federal and state rates are less than the statutory rates in each period due to the benefit of certain tax-exempt interest and other credits. See Note 5 of "Notes to Financial Statements."

Net income. As a result of the items discussed above, net income increased $7.7 million, or 40.9%, from $19.0 million in 1997 to $26.7 million in 1998. Net income as a percentage of net sales was 8.2% in 1998 and 8.2% in 1997.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

Net Sales. Total net sales increased $47.2 million, or 25.7%, from $183.6 million in 1996 to $230.9 million in 1997. 99 Cents Only Stores net sales increased approximately $42.9 million, or 29.9%, from $143.2 million in 1996 to $186.0 million in 1997, and Bargain Wholesale net sales increased approximately $4.4 million, or 10.7%, from $40.5 million in 1996 to $44.8 million in 1997. There were no other retail operations in 1997. The increase in 99 Cents Only Stores net sales was attributed to the effect of 10 stores opened in 1997 and the full effect of seven stores opened in 1996. Comparable stores net sales increased 1.5%, or $2.8 million, from 1996 to 1997. The increase in Bargain Wholesale net sales was primarily attributed to an increased focus on large international and domestic accounts and expansion into new geographic markets. Offsetting these positive developments was the adverse effect of the slow-down in the Asian markets in which the Company markets its goods.

Gross profit. Gross profit, which consists of total net sales less cost of sales, increased approximately $21.3 million, or 34.0%, from $62.7 million in 1996 to $84.1 million in 1997. The increase in gross profit was primarily due to higher net sales. As a percentage of net sales, gross profit improved from 34.2% in 1996 to 36.4% in 1997 reflecting favorable merchandise cost and mix factors at its 99 Cents Only Stores and the effect of a large percentage of net sales derived from 99 Cents Only Stores, which typically operate at higher gross margins than Bargain Wholesale.

Selling, general and administrative. Selling, general and administrative expenses ("SG&A"), which include operating expenses and depreciation and amortization, increased $13.1 million, or 33.1%, from $39.7 million in 1996 to $52.8 million in 1997, primarily due to increased costs associated with new store growth and increased executive compensation expense of approximately $0.8 million. SG&A increased as a percentage of net sales from 21.6% in 1996 to 22.9% in 1997. The increase as a percentage of net sales was primarily due to increased payroll costs primarily resulting from state and federally mandated increases in the minimum wage.

Operating income. Operating income increased $8.2 million, or 35.6%, from $23.0 million in the 1996 period to $31.2 million in 1997. Operating income increased as a percentage of net sales from 12.6% in 1996 to 13.5% in 1997 for the reasons discussed above.

Interest (income) expense. Interest (income) expense relates to the interest income on the Company's marketable securities net of interest expense on the Company's capitalized warehouse lease. The Company had no bank debt during 1997. Interest income earned on the Company's marketable securities was $1.6 million in 1997. At December 31, 1997, the Company held $26.2 million in short-term investments. The Company's short-term investments are comprised primarily of investment grade federal and municipal bonds and commercial paper, all with short-term maturities. The Company generally holds investments until maturity.

Provision for income taxes. The provision for income taxes in 1997 was $13.1 million, or 5.7% of net sales, compared to the pro forma provision of $9.5 million, or 5.1% of net sales, in 1996. The effective combined federal and state rates of the provision for income taxes were 40.9% and 40.8% in 1997 and 1996, respectively. The effective combined federal and state rates are less than the statutory rates in each period due to the benefit of certain tax credits. See Note 5 of "Notes to Financial Statements."

Net income. As a result of the items discussed above, net income increased $5.2 million, or 38.3%, from pro forma $13.7 million in 1996 to $19.0 million in 1997. Net income increased as a percentage of net sales from 7.5% in 1996 to 8.2% in 1997.

Liquidity and Capital Resources

Since inception, 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 requirement result primarily from purchases of inventory, expenditures related to new store openings and working capital requirements for new and existing stores. The Company takes advantage of close-out and other special-situation opportunities which frequently result 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.

During 1996, 1997 and 1998, net cash provided by operations was $15.6 million, $13.7 million and $27.0 million, respectively. Net cash provided by operations reflects increases in inventories in the amount of $2.6 million, $6.2 million and $7.1 million during 1996, 1997 and 1998, respectively. During 1996, 1997 and 1998, net cash used in investing activities for purchases of property and equipment was $7.3 million, $9.4 million and $12.6 million, respectively. Cash used in investing activities for the purchase of short-term investments was $27.6 million, $5.0 and $26.3 million in 1996, 1997 and 1998 respectively. Net cash provided by financing activities in 1996 $19.6 million, which included $66.2 million from the Company's initial public offering. In addition, the Company paid $35.5 million of notes payable to shareholders and issued dividends to shareholders for $4.4 million. Another $5.6 million represented payments of capital lease obligations and distributions to shareholders to cover, in part, federal and state income taxes payable by the shareholders with respect to the net income of the Company prior to the change of the corporate tax status from an S corporation to a C corporation. In 1997, net cash used in financing activities was $0.2 million; these funds represented payments of capital lease obligations and proceeds from the exercise of employee stock options. In 1998, net cash provided by financing activities was $16.4 million, which included $27.2 million from the Company's secondary public offering. In addition, the Company issued shares of common stock for the purchase of an additional 48% million of outstanding shares of Universal (336,986 shares at $29.66). The company received proceeds from the exercise of stock options of $2.5 million.

The Company does not maintain any credit facilities with any bank. However, the Company maintains a surety bond of approximately $1.2 million for self-insured workers compensation.

The Company leases its 880,000 square foot single level warehouse and distribution facility under a lease accounted for as a capital lease. The lease requires monthly payments of $70,000 and accrues interest at an annual rate of 7.0%. At the lease expiration in December 2000, the Company has the option to purchase the facility for $10.5 million. The Company currently intends to exercise the option at the end of the lease. If the Company does not exercise the purchase option, the Company will be subject to a $7.6 million penalty.

The Company plans to open new 99 Cents Only Stores at a targeted annual rate of 20%. The average investment per new store opened in 1998, including leasehold improvements, furniture, fixtures and equipment, inventory and pre-opening expenses, was approximately $660,000. Pre-opening expenses are not capitalized by the Company. The Company's cash needs for new store openings are expected to total approximately $9 million in 1999 and $12 million in 2000. The Company's total planned expenditures in each of 1999 and 2000 for additions to fixtures and leasehold improvements of existing stores as well as for distribution expansion and replacement will be approximately $5 million. The Company believes that its total capital expenditure requirements (including new store openings) will increase to approximately $14 million and $17 million in 1999 and 2000, respectively. Capital expenditures in 1998 and 1999 are currently expected to be incurred primarily for new store openings, improvements to existing stores and system and general corporate infrastructure. The Company believes that cash flow from operations will be sufficient to meet operating needs and capital spending requirements for at least the next twelve months.

Seasonality and Quarterly Fluctuations

The Company has historically experienced and expects to continue to experience some seasonal fluctuation in its net sales, operating income and net income. The highest sales periods for the Company are the Christmas and Halloween seasons. A greater amount of the Company's net sales and operating and net income is generally realized during the fourth quarter. The Company's quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of certain holidays (e.g., Easter) and the timing of new store openings and the merchandise mix. Further, the operations of Universal are even more dependent upon results in the fourth quarter.

The following table sets forth, certain unaudited results of operations for each quarter during 1997 and 1998 and such information as a percentage of net sales. The unaudited information has been prepared on the same basis as the audited financial statements appearing elsewhere in this report and includes all adjustments, which management considers necessary for a fair presentation of the financial data shown. The operating results for any quarter are not necessarily indicative of the results to be attained for any future period.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	Year Ended December 31, 1997 (Amounts in thousands)				Year Ended December 31, 1998			
Net sales:								
99 Cents Only Stores	$39,168	$42,567	$46,991	$57,298	$51,482	$56,695	$59,147	$71,543
Universal	-	-	-	-	-	-	2,456	28,661
Bargain Wholesale	11,576	11,247	11,995	10,013	11,400	15,062	16,357	10,480
Total	50,744	53,814	58,986	67,311	62,882	71,757	77,960	110,674
Gross profit	17,416	19,313	21,192	26,137	23,043	25,321	28,095	47,196
Operating income	6,085	7,157	7,879	10,098	8,619	9,405	10,230	16,407

Net income	3,676	4,369	4,750	6,155	4,541	5,385	6,712	10,055
Earnings per common share:								
Basic	$0.16	$0.19	$0.21	$0.26	$0.19	$0.22	$0.27	$0.42
Diluted	$0.16	$0.18	$0.20	$0.26	$0.19	$0.22	$0.27	$0.41
(% of Net sales)								
Net sales:								
99 Cents Only Stores	77.2%	79.1%	79.7%	85.1%	81.9%	79.0%	75.9%	64.6%
Universal	-	-	-	-	-	-	3.1	25.9
Bargain Wholesale	22.8	20.9	20.3	14.9	18.1	21.0	21.0	9.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross profit	34.3	35.9	35.9	38.8	36.6	35.3	36.0	42.6
Operating income	12.0	13.3	13.4	15.0	13.7	13.1	13.1	14.8
Net income	7.2%	8.1%	8.1%	9.1%	7.2%	7.5%	8.6%	9.1%

New Authoritative Pronouncements

In June 1997, the Financial Accounting Standard Board issued SFAS No. 130, "Reporting Comprehensive Income" (SFAS 130). Adoption of SFAS 130 has not had a material impact on the Company's financial reporting.

In June 1997, the Financial Accounting Standard Board issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" (SFAS 131). The Company adopted SFAS 131 in 1998 (see Note 11 of Notes to Consolidated Financial Statements).

In 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 is effective in 2000 and management does not expect adoption of this standard to have a material impact on the Company's financial reporting or results of operations.

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 "Risk Factors Adverse Economic Trends; Change in 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 1996, 1997 and 1998, we opened eight, ten and thirteen of our 99 Cents Only Stores, respectively (seven, ten and eleven stores, respectively, net of relocated stores). From January 1, 1999 through March 26, 1999, we opened two 99 Cents Only Stores and we expect to open at least eleven 99 Cents Only Stores in Southern California during the remainder of the year. We plan to open new stores over the next several years at a rate of approximately 20% [of the number of 99 Cents Only Stores we have] 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.

Risks Associated with Our Recent Acquisition

In September 1998, we acquired Universal International, Inc. and Odd's-N-End's, Inc. Acquisitions involve various risks. For example:

- Assimilation of the operations and personnel of an acquired business into our own business;

- Management information and accounting systems of an acquired business must be integrated into our current systems;

- Our management must devote its attention to assimilating the acquired business which diverts their attention from our other business concerns;

- We might enter markets in which we have limited prior experience; and

- We might lose key employees of an acquired business.

The companies we acquired operate in a market where we had little prior experience. We have devoted substantial time and resources to integrate these recently acquired businesses, and we will be required to devote substantial time and resources to integrate any other business we may acquire in the future.

We intend to continue to evaluate potential acquisitions of companies which we believe will complement or enhance our existing business. If we acquire other companies in the future, it may result in the issuance of equity securities that could dilute your stock ownership. We may also incur additional debt and amortize expenses related to goodwill and other tangible assets if we acquire another company, and this could negatively impact our results of operations. We currently do not have any arrangements or understandings to acquire any company or business, and we cannot guarantee that we will be able to identify or complete any acquisition in the future.

Our operations are mainly concentrated in Southern California

All of our 99 Cents Only Stores are currently located in Southern California. In addition, our retail expansion plans anticipate that new stores will be located in this region. As a result, our results of operations and financial condition depend upon trends in the Southern California economy. 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. Recovery in these retail markets has continued from 1995 through 1997. However, this trend may not continue and 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. Although we maintain standard property and business interruption insurance, we do not have earthquake insurance on our properties.

With our acquisition of Universal and Odd's-N-End's, we now have stores in the upper Midwest, upstate New York and Texas. These regions have unique economic characteristics which we will need to become more familiar with. In addition, unlike Southern California, extreme winter weather conditions in the Midwest and New York may cause decreases in retail spending during certain times of the year.

We could experience disruptions in receiving and distribution

We pick up substantially all our inventory for our 99 Cents Only Stores directly from suppliers and deliver the inventory to our only warehouse in Los Angeles, California. We distribute all inventory for our New York, Texas and Upper Midwest stores through our only warehouse in Minnesota. 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 or other disaster at our warehouses could hurt our business, financial condition and results of operation, particularly because much of our merchandise consists of close-outs 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, 1996, 1997 and 1998, we recorded net inventory of $36.9 million, $43.1 million and $78.4 million, respectively.

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 profits, 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;
- increases in employee health care costs;
- increases in prevailing wage levels; and
- decreases in consumer confidence levels.

As a result, increases in federal and state minimum wage requirements significantly affect our business. In California, the minimum wage increased [in March 1997 from $4.75 to $5.00 per hour], in September 1997 from $5.00 to $5.15 per hour, in March 1998 to $5.75 per hour [and again in January 1999 to $6.75 per hour.] The federal minimum wage increased in September 1997 to $5.15 per hour. Congress has proposed a bill to increase the minimum wage to $6.15 per hour beginning September 1, 1999, and $6.66 per hour beginning September 1, 2000, with later adjustments to reflect increases in the Consumer Price Index. Since we provide consumers with merchandise at a 99 Cents price point, we typically cannot pass on to them any incremental costs. As a result, significant increases in the minimum wage requirements could impair our business.

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;
- 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 13 of our 66, 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 $1.8 million, $2.0 million and $2.2 million in 1996, 1997 and 1998, 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, our Chief Executive Officer. 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 1996, 1997 and 1998, we generated approximately 28.8%, 29.2% and 34.2%, respectively, of our net sales and approximately 32.6%, 32.3% and 36.7%, respectively, of our operating income during the fourth quarter. Furthermore, the operations of Universal and Odd's-N-End's heavily depend upon fourth quarter results. 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. The factors include:

- the number and timing of sales contributed to new stores;
- 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 may need to modify our management information systems

Our business is currently supported by a standard accounting and financial reporting system which uses a PC-based local area network (LAN) and a separate partially customized inventory control system processed on a Hewlett-Packard RISC-based computer. We believe that our accounting and management information system and inventory control system meet our current needs. We plan to continue updating and enhancing our systems to improve our capabilities and provide for growth. If we grow faster than we expect, we may need to install a new management information or inventory control system or significantly modify our current systems to accommodate the growth in our business.

We face year 2000 risks

Many existing computer programs use only two digits to identify a year. These programs were designed and developed without addressing the impact of the upcoming change in the century. If not corrected, many computer software applications could fail or create erroneous results by, at or beyond the year 2000.

We use software, computer technology and other services, that may fail due to the year 2000 phenomenon. We have determined that we must modify or replace portions of our software so that our computer systems will function properly with respect to dates in the year 2000 and after. We expect to complete our year 2000 improvements by mid-1999. Although we do not expect the year 2000 problem to significantly affect our results of operations, we could encounter unanticipated delays and other problems in modifying our systems. Any difficulties we experience in becoming year 2000 compliant could hurt our ability to communicate with and effectively purchase from our suppliers, and could adversely impact our business.

Based upon the results of this assessment, we will develop and implement, if necessary, a remediation plan with respect to any software and computer technology used by our vendors that may not be year 2000 compliant. At this time, we cannot determine the expenses associated with this assessment and potential remediation plan. Our business could suffer significantly if our suppliers' software and computer systems are not year 2000 compliant.

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 three of our stores, as well as our warehouse and distribution facility (where our executive offices are located). We have the option to purchase our warehouse and distribution facility in December 2000, which we plan to do. 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 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. In addition, David Gold, our Chairman and Chief Executive Officer, and members of his immediate family and certain of their affiliates beneficially own 11,282,113 of the our voting stock. As a result, they have the ability to control 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 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.

Year 2000

General

The Year 2000 issue relates to the problems associated with many computer systems (including computer chips and software) not being designed to use dates for the Year 2000 and thereafter. Many of these systems internally record only the last two digits for the year of dates, and will not correctly distinguish between different years ending with the same two digits (the years 2000 and 1900 would be recorded identically). Others of these systems will not be able to accept, print, perform calculations, or display dates greater than 12/31/1999. While others may cease to function ("crash"), produce miscalculations or produce other undesired results in connection with such dates. The Year 2000 issues are a concern to the Company due to potential impacts on the Company's systems and additionally a concern for the potential impact to the systems of other entities (vendors, service providers, utility providers, transportation, banks, etc.) that provide products and services to the Company.

Although the Company believes that the Year 2000 issue will not pose significant internal operational problems for the Company, if all Year 2000 issues are not properly identified, or assessment, remediation and testing are not done, in a timely manner, with respect to the potential problems that are identified, there can be no assurance that the Year 2000 issue will not have a material adverse impact on the Company's results of operations including, among other things, a temporary inability to process credit sales transactions, record inventory transactions and engage in similar normal business activities. Additionally, there is no assurance that the Year 2000 issues of other entities will not have a material adverse impact on the Company's systems or operations.

Year 2000 Status

General phases of the project include (1) cataloging Year 2000 issues; (2) assigning priorities and materiality of the issues to the Company; (3) implementing and testing the necessary modifications and replacements, and (4) contingency planning.

The Company's use of computer systems consists of five major areas (1) operating systems; (2) purchased standard software applications; (3) internally developed software applications; (4) third party suppliers and agents; and (5) embedded chips. Application software concerns include both the conversion of software that is not Year 2000 compliant and or replacement of software where applicable.

The Company's primary computer systems consist of standard accounting and financial reporting packages utilizing a PC-based local area network and a packaged inventory control system, customized for the Company's needs, processed by a Hewlett Packard RISC-based system. Based on a review of the hardware, system software, and application software comprising these primary systems, the Company believes that, with some corrective measures, these primary systems will not be materially impacted by Year 2000 issues.

Third party suppliers include merchandise vendors, outside payroll processing, freight companies, banks, brokerage firms which hold the company's securities in street names as well as the underlying institutions issuing the securities, customer credit card and ATM authorization firms, stock transfer agent, security alarm, fire prevention, phone services, insurance companies, energy and other utility suppliers and various local, state and federal governmental regulatory agencies.

99 Cents Only Stores year 2000 Project is proceeding substantially on schedule. The Company has undertaken its year 2000 project internally and has developed a plan to make the Company's business computer systems Year 2000 compliant. The Company has completed the assessment as to its critical systems. The Company believes the risks associated with internal systems are minimal. The customized internal modifications are being scheduled, and will be complete in the last quarter of 1999.

The Company is in the process of upgrading their P.C. based financial package to its most current release which has been certified Year 2000 compliant. Additionally testing of the Hewlett Packard RISC based system will be completed by the end of the second quarter. The test will include using the Companies backup Hewlett Packard and changing the calendar to the Year 2000, so all core applications can be tested and confirmed Year 2000 ready.

Many of the Company's third party suppliers have been surveyed and identified as to those having a direct interface level. Letters and questionnaires are in the process of being sent to all critical entities with which the Company does business to assess their Year 2000 readiness. The Company anticipates that these activities will be on going for the remainder of 1999 and will include follow up telephone interviews and on site meetings. The Company is not currently aware of any single vendor or other third party that may have a material impact on the Company. The Company can provide no assurance that Year 2000 compliance will be successfully completed by its third party suppliers in a timely manner.

Cost

The total cost associated with required modifications to become Year 2000 compliant is not expected to be material to the Company's financial position. The estimated total cost of the Year 2000 compliance work has not been established, but is not expected to be material.

Contingency Plan

The Company has not completed a comprehensive analysis for all the operational problems and costs (including loss of revenue) that would be reasonably likely to result from the failure by the Company and certain third parties to complete efforts necessary to achieve Year 2000 compliance on a timely basis. A contingency plan has not been developed for dealing with all the most likely worst case scenario. The Company believes that any failures of its internal systems to be Year 2000 compliant will not alone materially adversely affect the continuity of core retail business or to receive and ship merchandise to its retail stores.

The Year 2000 compliance project is expected to reduce the level of uncertainty about the effect of Year 2000 on the Company and the preparedness of significant third party agents. The Company believes that with the implementation and completion of the project, significant interruptions of normal operations should be reduced. However, if all Year 2000 issues are not properly identified, or assessment, remediation and testing are not affected in a timely manner with respect to problems that are identified, there can be no assurance that Year 2000 issue will not have a material adverse impact on the Company results of operations or adversely affect the Company's relationships with suppliers, customers or other third parties. Additionally, there can be no assurance that the Year 2000 issues of other entities will not have a material adverse impact on the Company's systems or results of operations.

Readers are cautioned that forward-looking statements contained in this Year 2000 disclosure should be read in conjunction with the Company's disclosures under the heading, "Risk Factors" in the Company's Form 10-K for the year ended December 31, 1997. Readers should understand that the dates on which the Company believes the Year 2000 project will be completed are based upon Management's best estimates, which were derived utilizing numerous assumptions of future events, including the availability of certain resources, third-party modifications plans and other factors. However, there can be no guarantee that these estimates will be achieved, or that there will not be a delay in, or increased costs associated with, the implementation of the Company's Year 2000 compliance project. A delay in specific factors that might cause differences between the estimates and actual results include, but are not limited to, the availability and cost of personnel trained in these areas, the ability to correct all relevant computer code, timely responses to and corrections by third parties and suppliers, the ability to implement interfaces between the new systems and the systems not being replaced, and similar uncertainties. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of third parties and the inter-connection of national and international businesses, the Company cannot ensure that its ability to timely and cost effectively resolve problems associated with the Year 2000 issue may not affect its operations and business, or expose it to third party liability.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to interest rate risk for its investments in marketable securities.

At December 31, 1998, the Company had $46,560,000 in marketable securities maturing at various dates through June 2000. 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 with purchase of an investment is amortized over the term of the investment.

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To 99 Cents Only Stores:

We have audited the accompanying consolidated balance sheets of 99 Cents Only Stores (a California Corporation) and it's subsidiaries as of December 31, 1997 and 1998 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 99 Cents Only Stores and it's subsidiaries as of December 31, 1997 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Los Angeles, California
February 26, 1999

99 CENTS ONLY STORES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1997 AND 1998
(Amounts In Thousands, Except Share Data)

ASSETS

	1997	1998
CURRENT ASSETS:		
Cash	$882	$4,516
Short-term investments	26,191	43,850
Accounts receivable, net of allowance for doubtful accounts		

of $178 and $535 as of December 31, 1997 and 1998, respectively	1,510	2,605
Inventories	43,114	78,392
Other	673	2,389
Total current assets	72,370	131,752
PROPERTY AND EQUIPMENT, at cost:		
Land	8,072	9,590
Building and improvement	10,804	11,896
Leasehold improvements	10,986	19,179
Fixtures and equipment	8,473	16,860
Transportation equipment	558	1,014
Construction in progress	776	1,680
	39,669	60,219
Less_Accumulated depreciation and amortization	(10,228)	(14,746)
	29,441	45,473
OTHER ASSETS:		
Deferred income taxes	5,947	6,422
Long term investments in marketable securities	6,393	2,710
Deposits	234	183
Receivable from affiliated entity	230	-
Investment in Universal International, Inc.	3,708	-
Goodwill	-	8,617
Other	1,120	2,966
	17,632	20,898
	$119,443	$198,123

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

99 CENTS ONLY STORES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1997 AND 1998
(Amounts In Thousands, Except Share Data)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1997	1998
CURRENT LIABILITIES:		
Current portion of capital lease obligation	$704	$923
Accounts payable	5,534	13,856
Accrued expenses:		
Payroll and payroll-related	1,352	1,976
Sales tax	1,467	2,299
Liability for claims	396	306
Other	824	510
Workers compensation	1,091	1,372
Income taxes payable	211	-
	11,579	21,242
LONG-TERM LIABILITIES:		
Deferred rent	1,476	2,091
Accrued interest	2,075	2,690
Capital lease obligation, net of current portion	8,005	7,337
	11,556	12,118
MINORITY INTEREST	-	398
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_40,000,000 shares		
Issued and outstanding 23,223,449 at December 31, 1997 and 24,740,889 at December 31, 1998	66,207	107,571
Retained earnings	30,101	56,794
	96,308	164,366
	$119,443	$198,123

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

99 CENTS ONLY STORES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998
(Amounts In Thousands, Except Per Share Data)

	1996	1997	1998
NET SALES:			
99 Cents Only Stores	$143,163	$186,024	$238,867
Universal	-	-	31,107
Bargain Wholesale	40,480	44,831	53,299
	183,643	230,855	323,273
COST OF SALES	120,922	146,797	199,618
Gross profit	62,721	84,058	123,666
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:			
Operating expenses	37,683	49,850	73,941
Depreciation and amortization	2,009	2,989	5,053
	39,692	52,839	78,994
Operating income	23,029	31,219	44,661
OTHER (INCOME) EXPENSE:			
Interest income	(890)	(1,613)	(2,186)
Interest expense	764	758	783
	(126)	(855)	(1,403)
EQUITY LOSS AND MINORITY INTEREST	-	-	1,429
Income before proforma and historical provision for income taxes:	23,155	32,074	44,635
PROVISION FOR INCOME TAXES:			
Pro forma (unaudited)	9,453	_	_
Historical	2,418	13,124	17,942

NET INCOME:			
Pro forma (unaudited)	$13,702	-	-
Historical	$20,737	$18,950	$26,693
EARNINGS PER COMMON SHARE:			
Pro forma_Basic (unaudited)	$0.68	$-	$-
Pro forma_Diluted (unaudited)	$0.62	$-	$-
Historical_Basic	$1.03	$0.82	$1.11
Historical_Diluted	$0.94	$0.81	$1.09
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Pro forma_Basic (unaudited)	20,129	-	-
Pro forma_Diluted (unaudited)	21,999	-	-
Historical_Basic	20,129	23,178	24,022
Historical_Diluted	21,999	23,445	24,562

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

99 CENTS ONLY STORES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

(Amounts In Thousands)

	Common Stock Shares	Amount	Retained Earnings
BALANCE, December 31, 1995	15,514	$195	$35,363
Net income	-	-	20,737
Cash distributions to shareholders	-	-	(5,000)
Distributions to shareholders in the form of notes payable	-	-	(35,549)
Distributions to shareholders in the form of dividends payable	-	-	(4,400)
Net proceeds from initial public offering	7,637	66,159	-

BALANCE, December 31, 1996	23,151	66,354	11,151
Net income	-	-	18,950
Tax benefit from exercise of stock options	-	350	-
Proceeds from exercise of stock options	72	503	-
BALANCE, December 31, 1997	23,223	66,207	30,101
Net income			26,693
Tax benefit from exercise of stock options	-	2,195	-
Proceeds from exercise of stock options	243	2,477	-
Net proceeds from secondary public offering	938	27,188	-
Shares issued in connection with acquisition of Universal	337	9,504	-
BALANCE, December 31, 1998	24,741	$107,571	$56,794

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

99 CENTS ONLY STORES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

(Amounts in Thousands)

	1996	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$20,737	$18,950	$26,693
Adjustment to reconcile net income to net cash provided by operating activities:			
Provision for doubtful accounts	177	20	-
Depreciation and amortization	2,009	2,989	5,053
Loss on disposition of property and equipment	13	_	_
Equity loss and minority interest	_	_	1,429
Benefit for deferred income taxes	(5,324)	(245)	(475)
Changes in asset and liabilities associated with operating activities net of businesses acquired:			
Accounts receivable	(378)	31	(816)
Inventories	(2,620)	(6,181)	(7,117)
Other assets	42	(1,470)	(2,396)

Deposits	(15)	12	-
Receivable from affiliated entity	(58)	(66)	230
Accounts payable	827	(1,043)	4,379
Accrued expenses	185	(843)	(766)
Worker's compensation	(438)	320	281
Income taxes payable	7	458	(211)
Deferred rent	(52)	182	185
Accrued interest	535	575	524
Net cash provided by operating activities	15,647	13,690	26,994
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(7,308)	(9,357)	(12,600)
Purchases of short-term investments	(27,619)	(4,966)	(26,324)
Cash paid for Odd's-N-End's shares	-	-	(843)
Investment in Universal International, Inc.	-	(1,708)	-
Net cash used in investing activities	(34,927)	(16,030)	(39,767)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments of capital lease obligation	(612)	(666)	(758)
Retirement of revolving line of credit	-	-	(12,500)
Net proceeds from sale of stock	66,159	_	27,188
Proceeds from exercise of stock options	_	503	2,477
Payment of notes payable to shareholders	(35,549)	_	_
Payment of dividend payable	(4,400)	_	_
Distributions to shareholders	(5,000)	_	_
Net cash provided (used in) financing activities	19,598	(153)	16,407
NET INCREASE (DECREASE) IN CASH	318	(2,493)	3,634
CASH, beginning of period	3,057	3,375	882
CASH, end of period	$3,375	$882	$4,516

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

99 CENTS ONLY STORES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Line of Business

The Company, 99 Cents Only Stores and its subsidiaries (the Company, including the operations of its 99 Cents Only Stores, Only Deals and Odd's-N-End's retail locations and Bargain Wholesale) primarily retail various consumable products and operated 53 and 139 stores at December 31, 1997 and 1998, respectively. The Company is also a wholesale distributor of various consumable products.

2. Investment in Universal International, Inc.

On September 16, 1998, the Company completed its exchange offer to purchase additional shares of the outstanding common stock of Universal. The Company acquired an additional 46% of the outstanding common stock of Universal in exchange for 336,986 shares of 99 Cents Only Stores common stock. After the exchange the Company owns approximately 94% of the outstanding shares of Universal's common stock. In addition the Company completed a merger with Odd's-N-End's Inc. on September 30, 1998. The Company paid $0.30 per share or $843,243 for all of the remaining outstanding shares of Odd's-N-End's common stock. Included in 99 Cents Only Stores' results of operations for the year ended December 31, 1998 is a $1.4 million charge representing the Company's 48% share of the Universal loss for the period from January 1, 1998 through September 16, 1998. Universal's results of operations, including the results of Odd's-N-End's, from September 17, 1998 through December 31, 1998 are consolidated with that of the Company. Also during September 1998, the Company retired Universal's secured revolving note payable of approximately $12.5 million. Goodwill of $8.6 million associated with the acquisition of Universal is being amortized over a 30-year period. During the period from January 1, 1998 to September 16, 1998, the date of the purchase of the additional 46% interest in Universal common stock, the Company recorded wholesale sales to Universal of $11,970,000.

The following unaudited pro forma results of operations for the years ended December 31, 1997 and 1998 (in thousands, except per share data) have been prepared as if the acquisitions of Universal and Odd's-N-End's occurred on January 1, 1997.

	Years Ended December 31,	
	1997	1998
Net Sales	$299,560	$358,067
Net Income	14,726	25,813
Earnings per share:		
Basic	$0.62	$1.06
Diluted	$0.62	$1.04

The pro forma financial information presented does not purport to be indicative of the financial position or operating results which would have been achieved had the transactions described above taken place at the dates indicated and are not necessarily indicative of the Company's financial position or results of operations for any future period.

3. Concentration of Operations in Southern California

Most of the Company's retail stores are located in Southern California. In addition, the Company's current retail expansion plans anticipate that new stores will be located in this geographic region. Consequently, the Company's results of operations and financial condition are dependent upon general economic trends and various environmental factors in Southern California. With the acquisition of Universal and Odd's-N-End's, the Company also has retail stores in the upper Midwest, upstate New York and Texas.

4. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of 99 Cents Only Stores and its majority owned subsidiaries. All inter-company transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories are priced at the lower of cost (first in, first out) or market.

Depreciation and Amortization

Goodwill, property and equipment are amortized and depreciated on the straight-line basis over the following useful lives of the assets:

Goodwill	30 years
Building and improvements	30 - 27.5 years
Leasehold improvements	Lesser of 5 years or Remaining lease term
Fixtures and equipment	5 years
Transportation equipment	3 years

The Company follows the policy of capitalizing expenditures that materially increase asset lives and charging ordinary repairs and maintenance to operations as incurred.

Stock Split

All common shares and per share amounts have been adjusted to give retroactive effect for a five and four stock split effected in the form of a stock dividend distributed on November 12, 1998 to holders of record on November 5, 1998.

Earnings per 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 year. "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).

A reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding for each of the three years in the period ended December 31, 1998 follows:

	1996 (Amounts in thousands)	1997	1998
Weighted average number of common shares outstanding-Basic	20,129	23,178	24,022
Dilutive effect of outstanding stock options	168	267	540
Weighted average shares offered as a part of the public offering; the proceeds from such shares being used to fund a $39.9 million distribution to shareholders	1,702	-	-
Weighted average number of common shares outstanding-Diluted	21,999	23,445	24,562

Pro forma earnings per common share have been computed by dividing pro forma net income by the pro forma weighted average number of common shares outstanding plus the dilutive effect of common stock equivalents.

Concentration of Risk

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.

Pro Forma Statements of Income

Through April 30, 1996, the Company had elected treatment as an S corporation under provisions of the Internal Revenue Code. Effective May 1, 1996, the Company terminated its S corporation election and became a C corporation.

See Note 5 for explanation of pro forma provision for income taxes and related pro forma net income.

Deferred Rent

Certain of the Company's operating leases for its retail locations include scheduled increasing monthly payments. In accordance with generally accepted accounting principles, the Company has accounted for the leases to provide straight-line charges to operations over the lives of the leases.

Revenue Recognition

Revenue is recognized at the point of sale for retail sales and at the time of shipment for wholesale sales.

Pre-Opening Costs

The Company expenses, as incurred, all pre-opening costs related to the opening of new retail stores.

Stock Based Compensation

During 1996, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation" (SFAS 123). The Company has elected to comply with the pro forma disclosure requirements of this standard (see note 10) and to continue to account for stock options issued to employees under the provisions of APB 25.

Statements of Cash Flows

The Company prepares its statements of cash flows using the indirect method as prescribed by the Statement of Financial Accounting Standards No. 95. The Company considers all investments with original maturities of three months or less to be cash equivalents.

Cash payments for income taxes were $7,735,000, $12,911,000 and $16,727,000 in 1996, 1997 and 1998, respectively. Interest payments totaled approximately $228,000, $184,000 and $168,450 for the years December 31, 1996, 1997 and 1998, respectively.

New Authoritative Pronouncements

In June 1997, the Financial Accounting Standard Board issued SFAS No. 130, "Reporting Comprehensive Income" (SFAS 130). Adoption of SFAS 130 has not had a material impact on the Company's financial reporting.

In June 1997, the Financial Accounting Standard Board issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" (SFAS 131). The Company adopted SFAS 131 in 1998 (see Note 11).

In 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 is effective in 2000 and management does not expect adoption of this standard to have a material impact on the Company's financial reporting or results of operations.

Reclassifications

Certain amounts in the prior years have been reclassified to conform to the current year's presentation.

5. Pro Forma and Historical Income Tax Provision

Effective May 1, 1996, the Company terminated its S corporation election and became a C corporation. The actual taxes due by the Company through December 31, 1996 are based on S corporation tax rates for income from January 1, 1996 through April 30, 1996 and C corporation tax rates from May 1, 1996 through December 31, 1996. In connection with the Company's change in tax status, the Company recorded an increase in the deferred tax asset of $4,570,000. As a C corporation, the computation of deferred taxes is based on federal C corporation tax rates, which are not applicable to S corporations, and C corporation state tax rates, which are significantly larger than S corporation state tax rates. In accordance with SFAS 109, the gain resulting from the increase in the deferred tax asset is included as a credit to tax expense during the period ended December 31, 1996.

The historical provision (benefit) for income taxes and resulting historical net income, based on S corporation and C corporation tax rates as discussed above and including the effect of the increase in deferred tax asset as discussed above, for the year ended December 31, 1996 is as follows:

	(Amounts in Thousands)
Income before provision (benefit) for income taxes	$23,155
Historical provision (benefit) for income taxes:	
During period as an S corporation	75
During period as a C corporation	6,913
Change in tax status	(4,570)
	2,418
Historical net income	$20,737

As an S corporation, the Company's income, whether distributed or not, was taxed at the shareholder level for federal income tax purposes. For California franchise tax purposes, as an S corporation, the Company was taxed at 1.5 percent of taxable income.

Because of the Company's change in tax status, historical results of operations, including income taxes, and related earnings per share information may not in all cases, be comparable to, or indicative of current and future results. Therefore, pro forma information, which shows results as if the Company had always been a C Corporation is presented on the face of the accompanying statements.

The pro forma provision for income taxes included in the accompanying statements of income shows results as if the Company had always been subject to taxes as a C Corporation and had adopted Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes," prior to fiscal 1991.

Under SFAS 109, deferred income tax assets or liabilities are computed based on temporary differences between the financial statement and income tax bases of assets and liabilities using the enacted marginal income tax rate in effect for the year in which the differences are expected to reverse. Deferred income tax expenses or credits are based on the changes in the deferred income tax assets or liabilities from period to period.

Under SFAS 109, deferred tax assets may be recognized for temporary differences that will result in deductible amounts in future periods and for loss carry forwards. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. The pro forma provisions for income taxes for the year ended December 31, 1996 is as follows:

	Year ended December 31, (Amounts in thousands) 1996
Current:	
Federal	$8,695
State	1,490
	10,185
Deferred	(732)
Pro forma provisions for income taxes	$9,453

The historical provisions for income taxes for the years ended December 31, 1996, 1997 and 1998 are as follows:

	Years Ended December 31, (Amounts in thousands) 1996	1997	1998
Current:			
Federal	$6,111	$10,678	$14,879
State	1,631	2,691	3,538

	7,742	13,369	18,417
Deferred	(5,324)	(245)	(475)
Provisions for income taxes	$2,418	$13,124	$17,942

Differences between the pro forma provisions for income taxes and income taxes at the statutory federal income tax rate for the year ended December 31, 1996 is as follows:

	Amount	Percent
	Year ended December 31, 1996 (Amounts in thousands)	
Income tax at statutory Federal rate	$8,104	35%
State income taxes, net of federal income tax effect	1,389	6.0
Effect of permanent differences	60	0.2
LARZ and targeted jobs credits	(100)	(0.4)
	$9,453	40.8%

Differences between the historical provisions for income taxes and income taxes at the statutory federal income tax rate for the years ended December 31, 1996, 1997 and 1998 are as follows:

	Year Ended December 31, (Amounts in thousands)		
	1996	1997	1998

	Amount	Percent	Amount	Percent	Amount	Percent
Income tax at statutory federal rate	$6,122	26.4%	$11,226	35.0%	$15,622	35.0%
State income taxes, net of federal income tax effect	1,049	4.5	1,924	6.0	2,566	5.7
State income taxes as an S corporation	85	0.4	_	_	_	_
Effect of permanent differences	31	0.1	(204)	(0.6)	(254)	(0.5)
Effect of Universal equity losses	_	_	_	_	580	1.3
LARZ and targeted job credits	(100)	(0.4)	(280)	(0.9)	(393)	(0.9)
Change in tax status	(4,570)	(19.7)	_	_		_
Other	(199)	(0.9)	458	1.4	(178)	(0.4)
	$2,418	10.4%	$13,124	40.9%	$17,942	40.2%

A detail of the Company's deferred tax asset as of December 31, 1997 and 1998 is as follows:

	Years Ended December 31, (Amounts in thousands)	
	1997	1998
Inventory	$1,542	$1,061
Uniform inventory capitalization	886	1,712
Depreciation	1,666	1,566
Liability for claims	162	125
Workers' compensation	447	599
Deferred rent	605	755
LARZ credit	195	_
State taxes	511	724
Other, net	(57)	369
Net operating loss carry-forward	-	10,330
	5,947	17,240
Net deferred tax liabilities	-	(488)

	5,947	16,752
Valuation allowance	-	(10,330)
	$5,947	$6,422

In connection with the acquisition of Universal and Odd's-N-End's, the Company has federal net operating loss carry-forwards of approximately $29.5 million which it can use to offset Universal and Odd's-N-End's income. Future use of these loss carry-forwards may be limited and expire at various dates through 2012. Due to the uncertainty of the future use of such loss carry-forwards, the Company has recorded a valuation allowance equal to the tax effect of the loss carry-forward. In accordance with SFAS 109, any benefits realized from future use of these loss carry-forwards will be recorded as a reduction of the goodwill generated from the acquisition.

6. Short-Term Investments

Investment 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. The Company generally holds investments until maturity. Any premium or discount recognized in connection with the purchase of an investment is amortized over the term of the investment. As of December 31, 1997 and 1998, the fair value of investments approximated the carrying values and were invested as follows:

(Amounts in thousands)	1997	Maturity		1998	Maturity	
		Within 1 year	1 to 2 years		Within 1 year	1 to 2 years
Federal bonds	$1,500	$ -	$1,500	$1,500	$ -	$1,500
Municipal bonds	18,583	13,690	4,893	15,846	14,636	1,210
Commercial paper	12,501	12,501	-	29,214	29,214	-
	$32,584	$26,191	$6,393	$46,560	$43,850	$2,710

7. Capital Lease Obligations

The Company leases its warehouse, distribution and corporate facility (approximately 880,000 square feet) under a lease accounted for as a capital lease. Included in property and equipment is approximately $13.7 million of land and building, at cost, related to this lease.

The lease requires fixed payments of $70,000 per month and bears interest at 7.0 percent per annum. At the lease expiration in December 2000, the Company has the option to purchase the facility for $10.5 million. The Company plans to exercise the option at the end of the lease. In the event the option is not exercised, there is a $7.6 million penalty.

Universal also has various capital lease obligations payable in various monthly installments through August 2000, including interest at 5.0% and 11.1%.

Total minimum payments under the lease are as follows:

	(Amounts in thousands)	
Year ending December 31:		
1999		1,155
2000		11,566
	12,720	
Less_Amount representing interest	(4,460)	
Present value of minimum lease payment	8,260	
Less_Current portion	(923)	
	$7,337	

8. Related-Party Transactions

The Company leases certain retail facilities from its principal shareholders. Rental expense for these facilities was approximately $1.8 million, $2.0 million and $2.2 million in 1996, 1997 and 1998, respectively.

During 1996, 1997 and 1998 the Company incurred legal fees of $82,000, $61,000 and $60,000, respectively, to the law firm in which a director of the Company is a partner.

9. Commitments and Contingencies

Credit Facility

The Company does not maintain any credit facilities with any bank.

However, the Company maintains a surety bond of approximately $1.2 million for self-insured workers' compensation.

Lease Commitments

The Company leases various facilities under operating leases, which expire at various dates through 2009. Some of the lease agreements contain renewal options and/or provide for scheduled increases or increases based on the Consumer Price Index. Total minimum lease payments under each of these lease agreements, including scheduled increases, are charged to operations on a straight line basis over the life of each respective lease. Certain leases require the payment of property taxes, maintenance and insurance. Rental expense charged to operations in 1996, 1997 and 1998 was approximately $5.6 million, $7.3 million and $10.6 million, respectively.

As of December 31, 1998, the minimum annual rentals payable under all non-cancelable operating leases were as follows:

	(Amounts in thousands)
Year ending December 31:	
1999	$14,467
2000	13,304
2001	10,547
2002	8,925
2003	7,918
Thereafter	15,549
	$70,710

In addition, the Company also leases certain retail facilities on a month-to-month basis. The aggregate monthly rental payments for month-to-month leases at December 31, 1998 were approximately $30,000.

Workers' Compensation

Effective August 11, 1993, the Company became self-insured as to workers' compensation claims. The Company carries excess workers' compensation insurance, which covers any individual claim in excess of $250,000 with a $2.0 million ceiling. The Company provides for losses of estimated known and incurred but not reported insurance claims. Known claims are estimated and accrued when reported. At December 31, 1998, the Company had accrued approximately $1.4 million for estimated workers' compensation claims.

In connection with the self-insurance of workers' compensation, the Company is required, by the State of California, to maintain a $1.2 million surety bond.

The Company is named as a defendant in various legal matters arising in the normal course of business. In management's opinion, none of these matters will have a material effect on the Company's financial position or its results of operations.

10. Stock Option Plan

The Company's 1996 Stock Option Plan is a fixed plan, which provides for the granting of non-qualified and incentive options to purchase up to 3,125,000 shares of common stock. Options may be granted to officers, employees, directors and consultants. Grants may be at fair market value at the date of grant or at a price determined by the compensation committee consisting of three outside members of the board of directors (the "Committee"). Options vest over a three year period, one third one year from the date of grant and one third per year thereafter. Options expire ten years from the date of grant.
The following table summarizes stock options available for grant.

	Year ended December 31, 1996	Year ended December 31, 1997	Year ended December 31, 1998
Beginning Balance	_	861,173	16,500
Authorized	1,562,500	_	1,562,500
Granted	(798,124)	(885,705)	(917,284)
Cancelled	96,797	41,032	132,699
Available for future grant	861,173	16,500	794,415

A summary of the status of the Plan for the years ended December 31, 1997 and 1998 follows:

	December 31, 1996		December 31, 1997		December 31, 1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at the beginning of the year	-	$ -	701,327	$7.08	1,474,0	$11.18

					44	
Granted	798,124	7.07	885,705	14.12	917,284	31.29
Exercised	-	-	(71,956)	7.00	(242,954)	8.75
Cancelled	(96,797)	7.03	(41,032)	10.87	(132,699)	13.59
Outstanding at the end of the year	701,327	11.18	1,474,044	11.18	2,015,675	13.97
Exercisable at the end of the year	-	-	166,894	$7.11	446,102	$11.59
Weighted average fair value of options granted		$3.62		$11.55		$31.29

The following table summarizes information about stock options outstanding at December 31, 1998.

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$7.03_$8.56	442,490	7.3	$7.50	232,627	$7.05
$8.88-$11.64	13,751	6.9	9.20	9,688	9.33
$14.08_$17.04	679,552	8.3	14.09	166,270	14.08
$17.40_$21.20	6,563	8.7	20.11	2,188	20.11
$26.85_$30.20	753,912	9.3	30.10	18,750	26.85
$30.40_$32.00	24,564	7.2	31.93	17,579	32.00
$41.00_$43.26	94,843	9.9	41.14	-	-
	2,015,675	8.5	20.01	446,102	11.59

The Company has elected to continue to measure compensation costs associated with its stock option plan under APB 25, "Accounting for Stock Issued to Employees" and accordingly, under SFAS No. 123, the expected impact on the Company's financial statements is included in this expanded footnote disclosure.

Had the Company applied the fair value based method of accounting, which is not required, to all grants of stock options, under SFAS 123, the Company would have recorded additional compensation expense and computed pro forma net income and earnings per share amounts as follows for the years ended December 31, 1997 and 1998 (amounts in thousands, except for per share data):

	December 31, 1996	1997	1998
Additional compensation expense	$850	$3,112	$8,360
Pro forma net income	20,227	17,083	21,677
Pro forma earnings per share:			
Basic	$1.01	$0.74	$0.76
Diluted	$0.92	$0.73	$0.75

These pro forma amounts were determined by estimating the fair value of each option on its grant date using the Black-Scholes option-pricing model with the following assumptions:

	December 31, 1996	1997	1998
Risk free interest rate	5.0%	5.4%	4.9%
Expected life	5.6 years	10 years	8.8 years
Expected stock price volatility	28%	77%	67%
Expected dividend yield	None	None	None

11. Operating Segments

The Company has two business segments, retail operations and wholesale distribution. The retail segment includes 99 Cents Only Stores and Universal's, Only Deals and Odd's-N-End's retail stores. The majority of the product offerings include recognized brand-name consumable merchandise, regularly available for reorder. Bargain Wholesale sales 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 the same as those described above in the summary of significant accounting policies. The Company evaluates segment performance based on 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 and inter-company accounts. All such transfers have been eliminated in consolidation.

The Company had no customers representing more than 10 percent of consolidated net sales. Substantially all of the Company's net sales were to customers located in the United States.

Reportable segment information for the years ended December 31, 1996, 1997 and 1998 follows (in 000's).

	Retail	Wholesale	Total
1996			
Net sales	$143,163	$40,480	$183,643
Gross Margin	54,607	8,114	62,721
1997			
Net sales	$186,024	44,831	230,855
Gross Margin	75,211	8,847	84,058
1998			
Net sales	$269,974	$53,299	$323,273
Gross Margin	113,617	10,038	123,666

12. 401(k) Plan

In 1998 the Company adopted a 401(k) Plan (the Plan). All full time employees are eligible to participate in the plan after 3 months of service. The Company does not match employee contributions. The Company may elect to make a discretionary contribution to the Plan. For the year ended December 31, 1998, no discretionary contributions were made.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding directors of the registrant required by Item 401 of Regulation S-K and information regarding Directors and Executive Officers of the registrant required by Item 405 of Regulation S-K is presented under the captions "Election of Directors," "Management" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the definitive Proxy Statement for the Company's 1999 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by Item 402 of Regulation S-K is presented under the caption "Executive Compensation" in the definitive Proxy Statement for the Company's 1999 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 403 of Regulation S-K is presented under the caption "Principal Shareholders" in the definitive Proxy Statement for the Company's 1999 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by Item 404 of Regulation S-K is presented under the caption "Certain Relationships" in the definitive Proxy Statement for the Company's 1999 Annual Meeting of Shareholders, and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

1. Financial Statements. Reference is made to the Index to the Consolidated Financial Statements set forth on page 32 of this Form 10-K.

2. Financial Statement Schedules. All Schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are included herein.

3. Exhibits. The Exhibits listed on the accompanying Index to Exhibits are filed as part of, or incorporated by reference into, this report.

4. Reports on Form 8-K.
   A Report on Form 8-K was filed on February 19, 1998 Item 5.
   A Report on Form 8-K was filed on April 9, 1998 Item 5.
   A Report on Form 8-K was filed on April 22, 1998 Item 5.
   A Report on Form 8-K was filed on May 1, 1998 Item 5.
   A Report on Form 8-K was filed on October 27, 1998 Item 5.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this annual report Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

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By
:

Eric Schiffer
Senior Vice President of Finance and
Operations
and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934 this Annual Report on Form 10K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
David Gold	Chairman of the Board, Chief Executive Officer and President	March 25, 1999
Howard Gold	Senior Vice President of Distribution and Director	March 25, 1999
Jeff Gold	Senior Vice President of Real Estate and Information Systems and Director	March 25, 1999
Eric Schiffer	Senior Vice President of Finance and Operations and Director	March 25, 1999
Andy Farina	Chief Financial Officer	March 25, 1999
William Christy	Director	March 25, 1999
Lawrence Glascott	Director	March 25, 1999

Marvin L. Holen	Director	March 25, 1999
Ben Schwartz	Director	March 25, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To 99 Cents Only Stores:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of 99 Cents Only Stores and it's subsidiaries included in this Form 10-K and have issued our report thereon dated February 26, 1999. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule listed in the accompanying index is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Los Angeles, California
February 26, 1999

99 ONLY STORES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
For Each of the Three Years in the Period Ended December 31, 1998

	Beginning of Year	Addition	Reduction	Other	End of Year
		Amounts in Thousands			
For the year ended December 31, 1998:					
Allowance for doubtful account	$178	$-	$9	$366(a)	$535
Inventory reserve	3,762	_	1,173	_	2,589
For the year ended December 31,					

1997:					
Allowance for doubtful account	$211	$_	$33	$_	$178
Inventory reserve	4,052	_	290	_	3,762
For the year ended December 31, 1996:					
Allowance for doubtful account	$34	$237	$60	$_	$211
Inventory reserve	4,085	-	33	-	4,052

(a) Represents the allowance for doubtful accounts recorded in connection with the acquisition of Universal International, Inc.

Exhibit Index

Exhibit Number	Exhibit Description
3.1	Amended and Restated Articles of Incorporation of the Registrant.(1)
3.2	Amended and Restated Bylaws of the Registrant.(1)
4.1	Specimen certificate evidencing Common Stock of the Registrant.(1)
10.1	Form of Indemnification Agreement and Schedule of Indemnified Parties.(1)
10.2	[Reserved]
10.3	Form of Tax Indemnification Agreement, between and among the Registrant and the Existing Shareholders.(1)
10.4	1996 Stock Option Plan.(1)
10.5	Lease for 730 West Foothill Boulevard, Azusa, California, dated as of December 1, 1995, by and between the Registrant as Tenant and HKJ Gold, Inc. as Landlord, as amended(1).
10.6	Lease for 13023 Hawthorne Boulevard, Hawthorne, California, dated April 1 1994, by and between the Registrant as Tenant and HKJ Gold, Inc. as Landlord, as amended.(1)
10.7	Lease for 6161 Atlantic Boulevard, Maywood, California, dated November 11, 1985, by and between the Registrant as Lessee and David and Sherry Gold, among others, as Lessors.(1)
10.8	Lease for 14139 Paramount Boulevard, Paramount, California, dated as of March 1 1996, by and between the Registrant as Tenant and 14139 Paramount Properties as Landlord, as amended.(1)
10.9	Release Agreement, dated March 25, 1996, regarding 11382 Beach Boulevard, Stanton, California, by and between the Registrant and 11382 Beach Partnership.(1)
10.10	Lease for 6124 Pacific Boulevard, Huntington Park, California, dated January 31, 1991, by and between the Registrant as Tenant and David and Sherry Gold as the Landlord, as amended.(1)
10.11	Lease for 14901 Hawthorne Boulevard, Lawndale, California, dated November 1, 1991, by and between Howard Gold, Karen Schiffer and

Jeff Gold, dba 14901 Hawthorne Boulevard Partnership as Landlord and the Registrant as Tenant, as amended.(1)

10.12 Lease for 5599 Atlantic Avenue, North Long Beach, California, dated August 13, 1992, by and between the Registrant as Tenant and HKJ Gold, Inc. as Landlord, as amended.(1)

10.13 Lease for 1514 North Main Street, Santa Ana, California, dated as of November 12, 1993, by and between the Registrant as Tenant and Howard Gold, Jeff Gold, Eric J. Schiffer and Karen R. Schiffer as Landlord, as amended.(1)

10.14 Lease for 6121 Wilshire Boulevard, Los Angeles, California, dated as of July 1, 1993, by and between the Registrant as Tenant and HKJ Gold, Inc. as Landlord, as amended; and lease for 6101 Wilshire Boulevard, Los Angeles, California, dated as of December 1, 1995, by and between the Registrant as Tenant and David and Sherry Gold as Landlord, as amended.(1)

10.15 Lease for 8625 Woodman Avenue, Arlets, California, dated as of July 8, 1993, by and between the Registrant as Tenant and David and Sherry Gold as Landlord, as amended.(1)

10.16 Lease for 2566 East Florence Avenue, Walnut Park, California, dated as of April 18, 1994, by and between HKJ Gold, Inc. as Landlord and the Registrant as Tenant, as amended.(1)

10.17 Lease for 3420 West Lincoln Avenue, Anaheim, California, dated as of March 1, 1996, by and between the Registrant as Tenant and HKJ Gold, Inc. as Landlord, as amended.(1)

10.18 Master Lease for 4000 East Union Pacific Avenue, City of Commerce, . California ("Warehouse and Distribution Facility Lease"), dated as of December 20, 1993, by and between the Registrant as Lessee and TBC Realty II Corporation ("TBC") as Lessor, together with Lease Guaranty ("Lease Guaranty"), dated December 20, 1993, by and between Sherry and David Gold and TBC with respect thereto and Letter Agreement, dated December 15, 1993, among Registrant, The Mead Corporation, TBC and Citicorp Leasing, Inc. with respect to the Lease Guaranty.(1)

10.10 Hawaiian Gardens Indemnity Agreement, dated as of March 25, 1996, by and between the Registrant and HKJ Gold, Inc.(1)

10.20 North Broadway Indemnity Agreement, dated as of May 1, 1996, by and between HKJ Gold, Inc. and the Registrant.(1)

10.21 Lease for 2606 North Broadway, Los Angeles, California, dated as of May 1, 1996, by and between HKJ Gold, Inc. as Landlord and the Registrant as Tenant.(1)

10.22 Grant Deed concerning 8625 Woodman Avenue, Arleta, California, dated May 2, 1996, made by David Gold and Sherry Gold in favor of Au Zone Investments #2, L.P., a California limited partnership.(1)

10.23 Grant Deed concerning 6101 Wilshire Boulevard, Los Angeles, California, dated May 2, 1996, made by David Gold and Sherry Gold in favor of Au Zone Investments #2, L.P., a California limited partnership.(1)

10.24 Grant Deed concerning 6124 Pacific Boulevard, Huntington Park, California, dated May 2, 1996, made by David Gold and Sherry Gold in favor of Au Zone Investments #2, L.P., a California limited partnership.(1)

10.25 Grant Deed concerning 14901 Hawthorne Boulevard, Lawndale, California, dated May 2, 1996, made by Howard Gold, Karen Schiffer and Jeff Gold in favor of Au Zone Investments #2, L.P., a California limited partnership.(1)
11.1 Statements Regarding Computation of Per Share Earnings*
21.1 Subsidiaries of the Registrant. Universal International Inc., Only Deals, Inc., Odd's-N-End's Inc.
23.1 Consent of Arthur Andersen LLP.*
27.1 Financial Data Schedule*

* Filed herewith

(1) Incorporated by reference from the Company's Registration Statement on Form S-1 as filed with the Securities and Exchange Commission on May 21, 1996.

Exhibit 11.1

99 CENTS ONLY STORES
STATEMENTS REGARDING COMPUTATION OF
PER SHARE EARNINGS
(Amounts in Thousands, Except Per Share Data)

	1996	1997	1998
	December 31,		

Net Income	$20,737	$18,950	$26,693
Common Stock:			
Shares outstanding from beginning of period	15,514	23,151	23,223
Pro-rata shares_stock issuance	4,615	27	799
Basic weighted average number of common shares outstanding	20,129	23,178	24,022
Pro-rata common shares to fund distribution to shareholders	1,702	-	-
Common stock equivalents	168	267	540
Diluted weighted average number of common shares outstanding	21,999	23,445	24,562
Earnings per Common Share:			
Basic	$1.03	$0.82	$1.11
Diluted	$0.94	$0.81	$1.09

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statement File No. 33-66729.

ARTHUR ANDERSEN LLP

Los Angeles, California
March 24, 1999

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 Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

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By
:

Eric Schiffer
Senior Vice President of Finance and
Operations
and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934 this Registration Statement has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
David Gold	Chairman of the Board, Chief Executive Officer and President	March 25, 1999

Howard Gold	Senior Vice President of Distribution and Director	March 25, 1999
Jeff Gold	Senior Vice President of Real Estate and Information Systems and Director	March 25, 1999
Eric Schiffer	Senior Vice President of Finance and Operations and Director	March 25, 1999
Andy Farina	Chief Financial Officer	March 25, 1999
William O. Christy	Director	March 25, 1999
Lawrence Glascott	Director	March 25, 1999
Marvin L. Holen	Director	March 25, 1999
Ben Schwartz	Director	March 25, 1999

EXHIBIT 27.1

[PERIOD-TYPE]	12-MOS
[FISCAL-YEAR-END]	DEC-31-1998
[PERIOD-START]	JAN-01-1998
[PERIOD-END]	DEC-31-1998
[CASH]	4,516
[SECURITIES]	46,560
[RECEIVABLES]	2,605
[ALLOWANCES]	(535)
[INVENTORY]	78,392

[CURRENT-ASSETS]	131,752
[PP&E]	60,219
[DEPRECIATION]	(14,746)
[TOTAL-ASSETS]	198,123
[CURRENT-LIABILITIES]	21,242
[BONDS]	0
[PREFERRED-MANDATORY]	0
[PREFERRED]	0
[COMMON]	107,571
[OTHER-SE]	56,794 <FN 1>
[TOTAL-LIABILITY-AND-EQUITY]	198,123
[SALES]	323,273
<TOTAL-REVENUE>	323,273
[CGS]	199,618
[TOTAL-COSTS]	78,994
[OTHER-EXPENSES]	0
[LOSS-PROVISION]	0
[INTEREST-EXPENSE]	(1,403)
[INCOME-PRETAX]	44,635
[INCOME-TAX]	17,942
[INCOME-CONTINUING]	26,693
[DISCONTINUED]	0
[EXTRAORDINARY]	0
[CHANGES]	0
[NET-INCOME]	26,693
[EPS-PRIMARY]	1.11
[EPS-DILUTED]	1.09

[FN]
<FN1> Retained Earnings