

DOLLAR GENERAL CORP  
Form 10-Q  
June 08, 2010

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

**FORM 10-Q**

**QUARTERLY REPORT**  
**PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF**  
**1934**

**For the quarterly period ended April 30, 2010**

**Commission File Number: 001-11421**

**DOLLAR GENERAL CORPORATION**

*(Exact name of Registrant as specified in its charter)*

**TENNESSEE**

*(State or other jurisdiction of  
incorporation or organization)*

**61-0502302**

*(I.R.S. Employer  
Identification No.)*

**100 MISSION RIDGE  
GOODLETTSVILLE, TN 37072**

*(Address of principal executive offices, zip code)*

**Registrant's telephone number, including area  
code: (615) 855-4000**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X]  
No [ ]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).  
Yes [ ] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]

Accelerated filer [ ]

Non-accelerated filer [X]

Smaller reporting company [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes [ ] No [X]

The registrant had 341,004,089 shares of common stock outstanding on May 28, 2010.



**PART I FINANCIAL INFORMATION**

**ITEM 1.**

**FINANCIAL STATEMENTS.**

**DOLLAR GENERAL CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

*(In thousands)*

April 30,  
2010

January 29,  
2010

**ASSETS**

(Unaudited)

(see Note 1)

Current assets:

Cash and cash  
equivalents

\$

222,709

\$

222,076

Merchandise  
inventories

1,604,754

1,519,578

Income taxes  
receivable

-

7,543

Prepaid expenses and  
other current assets

111,115

96,252

|                            |           |
|----------------------------|-----------|
| Total current assets       | 1,938,578 |
|                            | 1,845,449 |
| Net property and equipment | 1,360,868 |
|                            | 1,328,386 |
| Goodwill                   | 4,338,589 |
|                            | 4,338,589 |
| Intangible assets, net     | 1,276,173 |
|                            | 1,284,283 |
| Other assets, net          |           |

62,868

66,812

Total assets

\$

8,977,076

\$

8,863,519

**LIABILITIES AND  
SHAREHOLDERS  
EQUITY**

Current liabilities:

Current portion of  
long-term obligations

\$

3,547

\$

3,671

Accounts payable

789,274

830,953

Accrued expenses  
and other

332,251

342,290

Income taxes payable

34,686

|                                  |           |
|----------------------------------|-----------|
|                                  | 4,525     |
| Deferred income<br>taxes payable |           |
|                                  | 46,282    |
|                                  | 25,061    |
| Total current<br>liabilities     |           |
|                                  | 1,206,040 |
|                                  | 1,206,500 |
| Long-term<br>obligations         |           |
|                                  | 3,399,887 |
|                                  | 3,399,715 |
| Deferred income<br>taxes         |           |
|                                  | 540,010   |

546,172

Other liabilities

277,989

302,348

Commitments and contingencies

Redeemable  
common stock

16,624

18,486

Shareholders equity:

Preferred stock

-

|                                      |           |
|--------------------------------------|-----------|
|                                      | -         |
| Common stock                         |           |
|                                      | 298,371   |
|                                      | 298,013   |
| Additional paid-in capital           |           |
|                                      | 2,928,855 |
|                                      | 2,923,377 |
| Retained earnings                    |           |
|                                      | 339,071   |
|                                      | 203,075   |
| Accumulated other comprehensive loss |           |
|                                      | (29,771)  |
|                                      | (34,167)  |

Total shareholders  
equity

3,536,526

3,390,298

Total liabilities and  
shareholders equity

\$

8,977,076

\$

8,863,519

*See notes to  
condensed  
consolidated  
financial statements.*

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q  
**DOLLAR GENERAL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

*(In thousands, except per share amounts)*

For the 13  
weeks ended

April 30,  
2010

May 1,  
2009

Net sales

\$

3,111,314

\$

2,779,937

Cost of goods  
sold

2,111,558

1,924,579

Gross profit

999,756

855,358

Selling,  
general and  
administrative

709,033

630,489

Operating  
profit

290,723

224,869

Interest  
income

(6)

(94)

Interest  
expense

72,018

89,235

Other  
(income)  
expense

145

1,667

Income before  
income taxes

218,566

134,061

Income tax  
expense

82,570

51,055

Net income

\$

135,996

\$

83,006

Earnings per  
share:

Basic

\$

0.40

\$

0.26

Diluted  
\$  
0.39

\$  
0.26

Weighted  
average shares  
outstanding:

Basic  
340,819

317,870  
Diluted

344,397

318,298

*See notes to  
condensed  
consolidated  
financial  
statements.*



**DOLLAR GENERAL CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

*(In thousands)*

For the 13  
weeks ended

April 30,  
2010

May 1,  
2009

*Cash flows  
from  
operating  
activities:*

Net income

\$

135,996

\$

83,006

Adjustments  
to reconcile  
net income to  
net cash  
provided by  
operating  
activities:

Depreciation  
and  
amortization

63,252

64,531

Deferred  
income taxes

10,029

|  |
|--|
| 15,461   |
| Tax benefit of<br>stock options                      |
| (4,806)  |
| -  |
| Non-cash<br>share-based<br>compensation              |
| 4,979  |
| 2,938  |
| Other<br>non-cash<br>gains and<br>losses             |
| 1,633  |
| 1,260  |
| Change in<br>operating<br>assets and<br>liabilities: |

Merchandise  
inventories

(85,176)

(39,040)

Prepaid  
expenses and  
other current  
assets

(13,503)

(3,012)

Accounts  
payable

(36,954)

10,578

Accrued  
expenses and  
other

(30,961)

(50,368)

Income taxes

42,510

23,336

Other

(26)

203

Net cash  
provided by  
operating  
activities

86,973

108,893

*Cash flows  
from investing  
activities:*

Purchases of  
property and  
equipment

(90,998)

(51,825)

Proceeds from  
sale of  
property and  
equipment

258

152

Net cash used  
in investing  
activities

(90,740)

(51,673)

*Cash flows  
from  
financing  
activities:*

Issuance of  
common stock

285

620

Repayments  
of long-term  
obligations

(463)

(999)

Repurchases  
of equity

(228)

(252)

Tax benefit of  
stock options

4,806

-

Net cash  
provided by  
(used in)

financing  
activities

4,400

(631)

Net increase  
in cash and  
cash  
equivalents

633

56,589

Cash and cash  
equivalents,  
beginning of  
period

222,076

377,995

Cash and cash  
equivalents,  
end of period

\$

222,709

\$

434,584

*Supplemental  
schedule of  
non-cash  
investing and  
financing  
activities:*

Purchases of  
property and  
equipment  
awaiting

processing for  
payment,  
included in  
Accounts  
payable

\$

25,669

\$

18,913

*See notes to  
condensed  
consolidated  
financial  
statements.*



**DOLLAR GENERAL CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**1.**

**Basis of presentation**

The accompanying unaudited condensed consolidated financial statements of Dollar General Corporation and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Such financial statements consequently do not include all of the disclosures normally required by U.S. GAAP or those normally made in the Company's Annual Report on Form 10-K. Accordingly, the reader of this Quarterly Report on Form 10-Q should refer to the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2010 for additional information.

The Company's fiscal year ends on the Friday closest to January 31. Unless the context requires otherwise, references to years contained herein pertain to the Company's fiscal year. The Company's 2010 fiscal year will end on January 28, 2011 and its 2009 fiscal year ended on January 29, 2010.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the Company's customary accounting practices. In management's opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated financial position as of April 30, 2010 and results of operations for the 13-week quarterly accounting periods ended April 30, 2010 and May 1, 2009 have been made.

The condensed consolidated balance sheet as of January 29, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by U.S. GAAP for complete financial statements.

The preparation of financial statements and related disclosures in conformity with U.S. GAAP 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The Company uses the last-in, first-out (LIFO) method of valuing inventory. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year. The interim LIFO calculations are subject to adjustment in the final year-end LIFO inventory valuation. The Company recorded LIFO charges of zero and \$0.8 million in the 13-week periods ended April 30, 2010 and May 1, 2009, respectively. In addition, ongoing estimates of inventory shrinkage and initial markups and markdowns are included in the interim cost of goods sold calculation. Because the Company's

business is moderately seasonal, the results for interim periods are not necessarily indicative of the results to be expected for the entire year.

Certain financial statement amounts relating to prior periods have been reclassified to conform to the current period presentation.

In June 2009, the FASB issued new accounting guidance relating to variable interest entities. This standard amends previous standards and requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity, specifies updated criteria for determining the primary beneficiary, requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity, eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, amends certain guidance for determining whether an entity is a variable interest entity, requires enhanced disclosures about an enterprise's involvement in a variable interest entity, and includes other provisions. This standard was effective as of January 30, 2010, the beginning of the Company's 2010 fiscal year. The impact of the adoption of this guidance on the Company's condensed consolidated financial statements was not material.

**2.**

**Comprehensive income**

Comprehensive income consists of the following:

13 Weeks  
Ended  
*(in thousands)*

April 30,  
2010

May 1,  
2009

Net income

\$

135,996

\$

83,006

Unrealized net gain (loss) on hedged transactions, net of income tax expense (benefit) of \$3,400 and \$(922) respectively (see Note 6)

4,396

(996)

Comprehensive income

\$

140,392

\$

82,010

3.

**Earnings per share**

Earnings per share is computed as follows (in thousands, except per share data):

13 Weeks  
Ended April  
30, 2010

13 Weeks  
Ended May  
1, 2009

Net  
Income

Shares

Per Share  
Amount

Net  
Income

Shares

Per Share  
Amount

Basic  
earnings per  
share

\$

135,996

340,819

\$

0.40

\$

83,006

317,870

\$

0.26

Effect of  
dilutive  
share-based  
awards

3,578

428

Diluted  
earnings per  
share

\$

135,996

344,397

\$

0.39

\$

40

83,006

318,298

\$

0.26

Basic earnings per share was computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share was determined based on the dilutive effect of stock options using the treasury stock method.

Options to purchase shares of common stock that were outstanding at the end of the respective periods, but were not included in the computation of diluted earnings per share

because the effect of exercising such options would be antidilutive, were 0.3 million and 3.0 million in the 2010 and 2009 periods, respectively.

**4.**

**Income taxes**

Under the accounting standards for income taxes, the asset and liability method is used for computing the future income tax consequences of events that have been recognized in the Company's consolidated financial statements or income tax returns.

Income tax reserves are determined using the methodology established by accounting standards for income taxes which require companies to assess each income tax position taken using a two step approach. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position.

The Internal Revenue Service ( IRS ) is examining the Company's federal income tax returns for fiscal years 2005 and 2006. The 2004 and earlier years are not open for examination. The 2007, 2008 and 2009 fiscal years, while not currently under examination, are subject to examination at the discretion of the IRS. The Company has various state income tax examinations that are currently in progress. The estimated liability related to these state income tax examinations is included in the Company's reserve for uncertain tax positions. Generally, the Company's tax years ended in 2006 and forward remain open for examination by the various state taxing authorities.

As of April 30, 2010, the total reserves for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were \$46.0 million, \$8.9 million and \$1.2 million, respectively, for a total of \$56.1 million. Of this amount, \$55.0 million is reflected in noncurrent Other liabilities in the condensed consolidated balance sheet with the remaining \$1.1 million reducing deferred tax assets related to net operating loss carry forwards. The reserve for uncertain tax positions decreased during the period ended April 30, 2010 by \$21.6 million due principally to the reduction of a liability associated with an accounting method utilized by the Company for income tax return filing purposes. The Company believes it is reasonably possible that the reserve for uncertain tax positions may be reduced by approximately \$14.9 million in the coming twelve months principally as a result of the settlement of currently ongoing state income tax examinations and the anticipated filing of an income tax accounting method change request that is expected to resolve various uncertainties related to accounting methods employed by the Company. The full amount of this reasonably possible change is included in noncurrent Other liabilities in the condensed consolidated balance sheet as of April 30, 2010. Also, as of April 30, 2010, approximately \$40.1 million of the reserve for uncertain tax positions would impact the Company's effective income tax rate if the Company were to recognize the tax benefit for these positions.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

The effective income tax rate for the 13-week period ended April 30, 2010 was 37.8% compared to a rate of 38.1% for the 13-week period ended May 1, 2009 which represents a net decrease of 0.3%.

## 5.

**Assets and liabilities measured at fair value**

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The Company has determined that the majority of the inputs used to value its derivative financial instruments using the income approach fall within Level 2 of the fair value hierarchy. However, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. As of April 30, 2010, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety, as discussed in detail in Note 6, are classified in Level 2 of the fair value hierarchy. The Company's long-term obligations classified in Level 2 of the fair value hierarchy are valued at cost. The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of April 30, 2010.

*(In thousands)*

Quoted Prices in  
Active Markets  
for Identical  
Assets and  
Liabilities  
(Level 1)

Significant  
Other  
Observable  
Inputs  
(Level 2)

Significant  
Unobservable  
Inputs  
(Level 3)

Balance at  
April 30,  
2010

Assets:

Trading  
securities (a)

\$

8,570

\$

-

\$

-

\$

8,570

Liabilities:

Long-term  
obligations (b)

3,562,716

24,180

-

3,586,896

Derivative  
financial  
instruments (c)

-

49,578

-

49,578

Deferred  
compensation  
(d)

15,770

-

-

15,770

(a)

Reflected at fair value in the condensed consolidated balance sheet as Prepaid expenses and other current assets of \$2,111 and Other assets, net of \$6,459.

(b)

Reflected at book value in the condensed consolidated

balance sheet as  
Current portion  
of long-term  
obligations of  
\$3,547 and  
Long-term  
obligations of  
\$3,399,887.

(c)

Reflected in the  
condensed  
consolidated  
balance sheet as  
non-current  
Other liabilities.

(d)

Reflected at fair  
value in the  
condensed  
consolidated  
balance sheet as  
Accrued  
expenses and  
other current  
liabilities of  
\$2,111 and  
non-current  
Other liabilities  
of \$13,659.

**6.**

**Derivatives and hedging activities**

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether



the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge a certain portion of its risk, even though hedge accounting does not apply or the Company elects not to apply the hedge accounting standards.

### **Risk management objective of using derivatives**

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

The Company is exposed to certain risks arising from uncertainties of future market values caused by the fluctuation in the prices of commodities. From time to time the Company may enter into derivative financial instruments to protect against future price changes related to these commodity prices.

### **Cash flow hedges of interest rate risk**

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income (loss) (also referred to as OCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the 13-week periods ended April 30, 2010 and



May 1, 2009, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

As of April 30, 2010, the Company had three interest rate swaps with a combined notional value of \$1.17 billion that were designated as cash flow hedges of interest rate risk. Amounts reported in Accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The Company terminated an interest rate swap in October 2008 due to the bankruptcy declaration of the counterparty bank. The Company continues to report the net gain or loss related to the discontinued cash flow hedge in OCI, and such net gain or loss is expected to be reclassified into earnings during the original contractual terms of the swap agreement as the hedged interest payments are expected to occur as forecasted. During the next 52-week period, the Company estimates that an additional \$37.1 million will be reclassified as an increase to interest expense for all of its interest rate swaps.

### **Non-designated hedges of commodity risk**

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to commodity price risk but do not meet strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of April 30, 2010, the Company had no such non-designated hedges. As of May 1, 2009, the Company had one diesel fuel commodity swap hedging monthly usage of diesel fuel through January 2010 with a total 11.4 million gallons notional during the remaining term that was not designated as a hedge in a qualifying hedging relationship.

The tables below present the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of April 30, 2010 and January 29, 2010 (in thousands):

### **Tabular Disclosure of Fair Values of Derivative Instruments**

### **Asset Derivatives**

**Liability  
Derivatives**

Balance Sheet  
Classification

Fair Value

Balance Sheet  
Classification

Fair Value

**Derivatives  
designated as  
hedging  
instruments**

Interest rate  
swaps:

As of April  
30, 2010

Other  
liabilities

\$

49,578

As of January  
29, 2010

Other  
liabilities

\$

57,058

9

---

The tables below present the pre-tax effect of the Company's derivative financial instruments on the condensed consolidated statement of income (including OCI, see Note 2) for the 13-week periods ended April 30, 2010 and May 1, 2009 (in thousands):

**Tabular  
Disclosure of  
the Effect of  
Derivative  
Instruments  
on the  
Condensed  
Consolidated  
Statement of  
Income  
For the  
13-weeks  
ended April  
30, 2010**

**Derivatives in  
Cash Flow  
Hedging  
Relationships**

**Amount of  
(Gain) or Loss  
Recognized in  
OCI on  
Derivative  
(Effective  
Portion)**

**Location of  
Gain or  
Loss  
Reclassified  
from  
Accumulated  
OCI into  
Income  
(Effective  
Portion)**

**Amount of  
(Gain) or Loss  
Reclassified  
from  
Accumulated  
OCI into  
Income  
(Effective  
Portion)**

**Location of  
Gain or  
Loss  
Recognized in  
Income on  
Derivative  
(Ineffective  
Portion  
and Amount  
Excluded  
from  
Effectiveness  
Testing)**

**Amount of  
(Gain)  
or Loss  
Recognized  
in Income on  
Derivative  
(Ineffective  
Portion  
and Amount  
Excluded  
from  
Effectiveness  
Testing)**

Interest Rate  
Swaps

\$

4,543

Interest  
expense

\$

12,340

Other (income)  
expense

\$

145

**Tabular  
Disclosure of  
the Effect of  
Derivative  
Instruments  
on the  
Condensed  
Consolidated  
Statement of  
Income  
For the  
13-weeks  
ended May 1,  
2009**

**Derivatives in  
Cash Flow  
Hedging  
Relationships**

**Amount of  
(Gain) or Loss  
Recognized in  
OCI on  
Derivative  
(Effective  
Portion)**

**Location of  
Gain or  
Loss**

**Reclassified  
from  
Accumulated  
OCI into  
Income  
(Effective  
Portion)**

**Amount of  
(Gain) or Loss  
Reclassified  
from  
Accumulated  
OCI into  
Income  
(Effective  
Portion)**

**Location of  
Gain or  
Loss  
Recognized in  
Income on  
Derivative  
(Ineffective  
Portion  
and Amount  
Excluded  
from  
Effectiveness  
Testing)**

**Amount of  
(Gain)  
or Loss  
Recognized  
in Income on  
Derivative  
(Ineffective  
Portion  
and Amount  
Excluded  
from  
Effectiveness  
Testing)**

Interest Rate  
Swaps

\$

13,817

Interest  
expense

\$

11,898

Other (income)  
expense

\$

158

**Derivatives  
Not  
Designated as  
Hedging  
Instruments**

**Location of  
Gain or Loss  
Recognized in  
Income on  
Derivative**

**Amount of  
(Gain) or Loss  
Recognized in  
Income on  
Derivative**

Commodity  
Hedges

Other (income)  
expense

\$

1,508

**Credit-risk-related contingent features**

The Company has agreements with all of its interest rate swap counterparties that contain a provision providing that the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on such indebtedness.

As of April 30, 2010, the fair value of interest rate swaps in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was \$51.2 million. If the Company had breached any of these provisions at April 30, 2010, it could have been required to post full collateral or settle its obligations under the agreements at an estimated termination value of \$51.2 million. As of April 30, 2010, the Company had not breached any of these provisions or posted any collateral related to these agreements.

7.

## Commitments and contingencies

### Legal proceedings

On August 7, 2006, a lawsuit entitled *Cynthia Richter, et al. v. Dolgencorp, Inc., et al.* was filed in the United States District Court for the Northern District of Alabama (Case No. 7:06-cv-01537-LSC) ( *Richter* ) in which the plaintiff alleges that she and other current and former Dollar General store managers were improperly classified as exempt executive employees under the Fair Labor Standards Act ( *FLSA* ) and seeks to recover overtime pay, liquidated damages, and attorneys' fees and costs. On August 15, 2006, the Richter plaintiff filed a motion in which she asked the court to certify a nationwide class of current and former store managers. The Company opposed the plaintiff's motion. On March 23, 2007, the court conditionally certified a nationwide class. On December 2, 2009, notice was mailed to over 28,000 current or former Dollar General store managers, and approximately 3,860 individuals opted into the lawsuit.

The Company believes that its store managers are and have been properly classified as exempt employees under the FLSA and that this action is not appropriate for collective action treatment. The Company intends to vigorously defend this action and expects to ask the court to decertify the class at the conclusion of the discovery period. However, at this time, it is not possible to predict whether the court ultimately will permit this action to proceed collectively, and no assurances can be given that the Company will be successful in the defense on the merits or otherwise. If the Company is not successful in its efforts to defend this action, the resolution could have a material adverse effect on the Company's financial statements as a whole.

On May 18, 2006, the Company was served with a lawsuit entitled *Tammy Brickey, Becky Norman, Rose Rochow, Sandra Cogswell and Melinda Sappington v. Dolgencorp, Inc. and Dollar General Corporation* (Western District of New York, Case No. 6:06-cv-06084-DGL, originally filed on February 9, 2006 and amended on May 12, 2006 ( *Brickey* )). The Brickey plaintiffs seek to proceed collectively under the FLSA and as a class under New York, Ohio, Maryland and North Carolina wage and hour statutes on behalf of, among others, assistant store managers who claim to be owed wages (including overtime wages) under those statutes. At this time, it is not possible to predict whether the court will permit this action to proceed collectively or as a class. However, the Company believes that this action is not appropriate for either collective or class treatment and that the Company's wage and hour policies and practices comply with both federal and state law. The Company plans to vigorously defend this action; however, no assurances can be given that the Company will be successful in the defense on the merits or otherwise, and, if it is not successful, the resolution of this action could have a material adverse effect on the Company's financial statements as a whole.

On March 7, 2006, a complaint was filed in the United States District Court for the Northern District of Alabama (*Janet Calvert v. Dolgencorp, Inc.*, Case No. 2:06-cv-00465-VEH ( *Calvert* )), in which the plaintiff, a former store manager, alleged that she was paid less than male store managers because of her sex, in violation of the Equal Pay Act

and Title VII of the Civil Rights Act of 1964, as amended ( Title VII ). The complaint subsequently was amended to include additional plaintiffs, who also allege to have been paid less than males because of their

sex, and to add allegations that the Company's compensation practices disparately impact females. Under the amended complaint, Plaintiffs seek to proceed collectively under the Equal Pay Act and as a class under Title VII, and request back wages, injunctive and declaratory relief, liquidated damages, punitive damages and attorney's fees and costs.

On July 9, 2007, the plaintiffs filed a motion in which they asked the court to approve the issuance of notice to a class of current and former female store managers under the Equal Pay Act. The Company opposed plaintiffs' motion. On November 30, 2007, the court conditionally certified a nationwide class of females under the Equal Pay Act who worked for Dollar General as store managers between November 30, 2004 and November 30, 2007. The notice was issued on January 11, 2008, and persons to whom the notice was sent were required to opt into the suit by March 11, 2008. Approximately 2,100 individuals have opted into the lawsuit.

On April 19, 2010, the plaintiffs moved for class certification relating to their Title VII claims. The Company filed its response to the certification motion in June 2010, and will move for decertification of the Equal Pay Act class. We do not anticipate a ruling on these motions before the end of the summer.

At this time, it is not possible to predict whether the court ultimately will permit the Calvert action to proceed collectively under the Equal Pay Act or as a class under Title VII. However, the Company believes that the case is not appropriate for class or collective treatment and that its policies and practices comply with the Equal Pay Act and Title VII. The Company intends to vigorously defend the action; however, no assurances can be given that the Company will be successful in the defense on the merits or otherwise. If the Company is not successful in defending the Calvert action, its resolution could have a material adverse effect on the Company's financial statements as a whole.

On July 30, 2008, the Company was served with a complaint filed in the District Court for Dallas County, Iowa (*Julie Cox, et al. v. Dolgencorp, Inc., et al* Case No. LACV-034423) in which the plaintiff, a former store manager, alleged that the Company discriminates against pregnant employees on the basis of sex and retaliates against employees in violation of the Iowa Civil Rights Act. Cox sought to represent a class of all current, former and future employees from the State of Iowa who are employed by Dollar General who suffered from, are currently suffering from or in the future may suffer from alleged sex/pregnancy discrimination and retaliation and seeks declaratory and injunctive relief as well as equitable, compensatory and punitive damages and attorneys' fees and costs.

On April 5, 2010, the Court denied the plaintiff's motion for class certification. Subsequently, the Company resolved the matter for an amount that was immaterial to the Company's financial statements.

In October 2008, the Company terminated an interest rate swap as a result of the counterparty's declaration of bankruptcy. This declaration of bankruptcy constituted a default under the contract governing the swap, giving the Company the right to terminate. The Company subsequently settled the swap in November 2008 for approximately \$7.6 million, including interest accrued to the date of termination. On May 14, 2010, the Company received a



demand from the counterparty for an additional payment of approximately \$19 million claiming that the valuation used to calculate the \$7.6 million was commercially unreasonable. The Company does not believe that this additional payment is owed and believes the methodology it used to calculate the settlement amount was commercially reasonable and appropriate. Accordingly, the Company intends to vigorously defend any claim in this regard that may be asserted by the counterparty; however, no assurances can be given that the Company will be successful in the defense on the merits or otherwise.

From time to time, the Company is a party to various other legal actions involving claims incidental to the conduct of its business, including actions by employees, consumers, suppliers, government agencies, or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation, including without limitation under federal and state employment laws and wage and hour laws. The Company believes, based upon information currently available, that such other litigation and claims, both individually and in the aggregate, will be resolved without a material adverse effect on the Company's financial statements as a whole. However, litigation involves an element of uncertainty. Future developments could cause these actions or claims to have a material adverse effect on the Company's results of operations, cash flows, or financial position. In addition, certain of these lawsuits, if decided adversely to the Company or settled by the Company, may result in liability material to the Company's financial position or may negatively affect operating results if changes to the Company's business operation are required.

**8.**

**Share-based payments**

The Company's Second Amended and Restated Equity Appreciation Rights Plan provides for the granting of equity appreciation rights to nonexecutive managerial employees. During the 13-week period ended April 30, 2010, 679,777 of such equity appreciation rights, affecting 873 employees, vested in conjunction with a secondary offering of the Company's common stock, resulting in selling, general and administrative expenses for share-based awards of \$13.3 million and for related payroll taxes of \$1.0 million.

**9.**

**Segment reporting**

The Company manages its business on the basis of one reportable segment. As of April 30, 2010, all of the Company's operations were located within the United States, with the exception of a Hong Kong subsidiary and a liaison office in India, the collective assets and revenues of which are not material. Net sales grouped by classes of similar products are presented below.

13 Weeks  
Ended

( *I n*  
*thousands*)

April 30,  
2010

May 1,  
2009

Classes of  
s i m i l a r  
products:

Consumables

\$

2,231,500

\$

1,995,809

Seasonal

430,051

356,452

H o m e  
products

224,867

216,883

Apparel

224,896

210,793

Net sales

\$

3,111,314

\$

2,779,937



**10.**

**Related party transactions**

Affiliates of Kohlberg Kravis Roberts & Co. ( KKR ) and Goldman, Sachs & Co. indirectly own a substantial portion of the Company's common stock. A Member and a Director of KKR and a Managing Director of Goldman, Sachs & Co. serve on the Company's Board of Directors.

Affiliates of KKR and Goldman, Sachs & Co. (among other entities) may be lenders under the Company's senior secured term loan facility ( Term Loan Facility ) with an original July 2007 principal amount of \$2.3 billion and a principal balance as of April 30, 2010 of approximately \$1.96 billion. The Company paid approximately \$14.8 million and \$20.0 million of interest on the Term Loan Facility during the 13 week periods ended April 30, 2010 and May 1, 2009, respectively.

Goldman, Sachs & Co. is a counterparty to an amortizing interest rate swap with a \$383.3 million notional amount as of April 30, 2010, entered into in connection with the Term Loan Facility. The Company paid Goldman, Sachs & Co. approximately \$4.7 million and \$4.1 million in the periods ended April 30, 2010 and May 1, 2009, respectively, pursuant to this swap.

The Company entered into a sponsor advisory agreement, dated July 6, 2007, with KKR and Goldman, Sachs & Co. pursuant to which those entities provided management and advisory services to the Company. Under the terms of the sponsor advisory agreement, among other things, the Company was obliged to pay to those entities an annual management fee, initially \$5.0 million and subject to annual escalation. The Company completed its initial public offering of common stock in November 2009 and concurrently terminated the advisory agreement. The Company periodically reimburses KKR for incidental expenses incurred on behalf of the Company. The Company reimbursed KKR for incidental expenses of \$0.1 million for the period ended April 30, 2010 and incurred advisory fees and other expenses for the period ended May 1, 2009 of \$1.3 million. In addition, on July 6, 2007, the Company entered into a separate indemnification agreement with the parties to the sponsor advisory agreement, pursuant to which the Company agreed to provide customary indemnification to such parties and their affiliates.

Affiliates of KKR and Goldman, Sachs & Co. served as underwriters in connection with the Company's initial public offering of its common stock and in connection with the secondary offering of the Company's common stock held by certain existing shareholders that was completed in April 2010. The Company did not sell shares of common stock, receive proceeds from such shareholders' sale of shares of common stock or pay any underwriting fees in connection with the secondary offering.

**11.**

**Subsequent events**

On May 6, 2010, the Company repurchased in the open market \$50.0 million aggregate principal amount of 10.625% senior notes due 2015 at a price of 111.0% plus accrued and unpaid interest. The pretax loss on this transaction of approximately \$6.5 million will be reflected in the Company's consolidated financial statements for the second quarter

of 2010.

**12.**

**Guarantor subsidiaries**

Certain of the Company's subsidiaries (the Guarantors) have fully and unconditionally guaranteed on a joint and several basis the Company's obligations under certain outstanding debt obligations. Each of the Guarantors is a direct or indirect wholly-owned subsidiary of the Company. The following consolidating schedules present condensed financial information on a combined basis, in thousands.

**April 30, 2010**

**DOLLAR  
GENERAL  
CORPORATION**

**GUARANTOR  
SUBSIDIARIES**

**OTHER  
SUBSIDIARIES**

**ELIMINATIONS**

**CONSOLIDATED**

**TOTAL**

**BALANCE  
SHEET:**

ASSETS

Current assets:

Cash and cash  
equivalents

\$

93,598

\$

103,819

\$

25,292

\$

-

\$

222,709

Merchandise  
inventories

-

1,604,754

-

-

1,604,754

Deferred income  
taxes

5,995

-

4,113

(10,108)

-

Prepaid expenses  
and other current  
assets

673,089

3,189,489

3,204

(3,754,667)

111,115

Total current assets

772,682

4,898,062

32,609

(3,764,775)

1,938,578

Net property and  
equipment

101,759

1,259,001

108

80

-

1,360,868

Goodwill

4,338,589

-

-

-

4,338,589

Intangible assets,  
net

1,200,112

76,061

-

-

1,276,173

Deferred income  
taxes

-

-

38,791

(38,791)

-

Other assets, net

4,555,530

8,334

297,161

(4,798,157)

62,868

Total assets

\$

10,968,672

\$

6,241,458

\$

368,669

\$

(8,601,723)

\$

8,977,076

LIABILITIES AND  
SHAREHOLDERS  
EQUITY

Current liabilities:

Current portion of  
long-term  
obligations

\$

1,822

\$

1,725

\$

-

\$

-

\$

3,547

Accounts payable

3,154,734

1,329,601

46,067

(3,741,128)

789,274

Accrued expenses  
and other

81,479

210,049

54,262

(13,539)

332,251

Income taxes  
payable

24,338

234

10,114

-

34,686

Deferred income  
taxes payable

-

56,390

-

(10,108)

46,282

Total current  
liabilities

3,262,373

1,597,999

110,443

(3,764,775)

1,206,040

Long-term  
obligations

3,646,331

2,785,242

13,178

(3,044,864)

3,399,887

Deferred income  
taxes

398,161

180,640

-

(38,791)

540,010

Other liabilities

108,657

26,547

142,785

-

277,989

Redeemable  
common stock

16,624

-

-

-

16,624

Shareholders  
equity:

Preferred stock

-

-

-

-

-

Common stock

298,371

23,855

95

100

(23,955)

298,371

Additional paid-in  
capital

2,928,855

431,253

19,900

(451,153)

2,928,855

Retained earnings

339,071

1,195,922

82,263

(1,278,185)

339,071

Accumulated other  
comprehensive loss

(29,771)

-

-

-

(29,771)

Total shareholders  
equity

3,536,526

1,651,030

102,263

(1,753,293)

3,536,526

Total liabilities and  
shareholders equity

\$

10,968,672

\$

6,241,458

\$

368,669

\$  
(8,601,723)

\$  
8,977,076

**January 29, 2010**

**DOLLAR  
GENERAL  
CORPORATION**

**GUARANTOR  
SUBSIDIARIES**

**OTHER  
SUBSIDIARIES**

**ELIMINATIONS**

**CONSOLIDATED**

**TOTAL**

**BALANCE  
SHEET:**

ASSETS

Current assets:

Cash and cash  
equivalents

\$

97,620

\$

103,001

\$

21,455

\$

-

\$

222,076

Merchandise  
inventories

-

1,519,578

-

-

1,519,578

Income taxes  
receivable

9,924

1,645

-

(4,026)

7,543

Deferred income  
taxes

16,066

-

3,559

(19,625)

-

Prepaid expenses  
and other current

assets

625,157

3,040,792

704

(3,570,401)

96,252

Total current assets

748,767

4,665,016

25,718

106

(3,594,052)

1,845,449

Net property and  
equipment

99,452

1,228,829

105

-

1,328,386

Goodwill

4,338,589

-

-

-

4,338,589

Intangible assets,  
net

1,201,223

83,060

-

-

1,284,283

Deferred income  
taxes

-

-

36,405

(36,405)

-

Other assets, net

4,288,270

8,920

297,757

(4,528,135)

66,812

Total assets

\$

10,676,301

\$

5,985,825

\$

359,985

\$

(8,158,592)

\$

8,863,519

LIABILITIES AND  
SHAREHOLDERS  
EQUITY

Current liabilities:

Current portion of  
long-term  
obligations

\$

1,822

\$

1,849

\$

-

\$

113

-

\$

3,671

Accounts payable

3,033,723

1,311,063

46,818

(3,560,651)

830,953

Accrued expenses  
and other

72,320

226,571

53,149

(9,750)

342,290

Income taxes  
payable

4,086

-

4,465

(4,026)

115

4,525

Deferred income  
taxes payable

-

44,686

-

(19,625)

25,061

Total current  
liabilities

3,111,951

1,584,169

104,432

(3,594,052)

1,206,500

Long-term  
obligations

3,645,820

2,689,492

13,178

(2,948,775)

3,399,715

Deferred income  
taxes

394,045

188,532

-

(36,405)

546,172

Other liabilities

115,701

40,065

146,582

-

302,348

Redeemable  
common stock

18,486

-

-

-

18,486

Shareholders  
equity:

Preferred stock

-

-

-

-

-

Common stock

298,013

23,855

100

(23,955)

298,013

Additional paid-in  
capital

2,923,377

431,253

19,900

(451,153)

2,923,377

Retained earnings

203,075

1,028,459

75,793

(1,104,252)

203,075

Accumulated other  
comprehensive loss

(34,167)

-

-

-

(34,167)

Total shareholders  
equity

3,390,298

1,483,567

95,793

(1,579,360)

3,390,298

Total liabilities and  
shareholders equity

\$

10,676,301

\$

5,985,825

\$

359,985

\$

(8,158,592)

\$

8,863,519



**For the 13-weeks  
ended April 30,  
2010**

**DOLLAR  
GENERAL  
CORPORATION**

**GUARANTOR  
SUBSIDIARIES**

**OTHER  
SUBSIDIARIES**

**ELIMINATIONS**

**CONSOLIDATED**

**TOTAL**

**STATEMENTS  
OF INCOME:**

Net sales

\$

87,464

\$

3,111,314

\$

19,648

\$

(107,112)

\$

3,111,314

Cost of goods sold

-

2,111,558

-

-

2,111,558

Gross profit

87,464

999,756

19,648

(107,112)

999,756

130

Selling, general and  
administrative  
expenses

79,619

721,863

14,663

(107,112)

709,033

Operating profit

7,845

277,893

4,985

-

290,723

Interest income

(11,017)

(2,710)

(4,953)

18,674

(6)

Interest expense

79,457

11,230

5

(18,674)

72,018

Other (income)  
expense

145

-

-

-

145

Income (loss)  
before income taxes

(60,740)

269,373

9,933

-

218,566

Income tax expense  
(benefit)

(22,803)

134

101,910

3,463

-

82,570

Equity in  
subsidiaries  
earnings, net of  
taxes

173,933

-

-

(173,933)

|            |           |
|------------|-----------|
|            | -         |
| Net income |           |
|            | \$        |
|            | 135,996   |
|            | \$        |
|            | 167,463   |
|            | \$        |
|            | 6,470     |
|            | \$        |
|            | (173,933) |
|            | \$        |
|            | 135,996   |

**For the 13 weeks  
ended May 1, 2009**

**DOLLAR  
GENERAL  
CORPORATION**

**GUARANTOR  
SUBSIDIARIES**

**OTHER  
SUBSIDIARIES**

**ELIMINATIONS**

**CONSOLIDATED**

**TOTAL**

**STATEMENTS  
OF INCOME:**

Net sales

\$

62,846

\$  
2,779,937

\$  
21,473

\$  
(84,319)

\$  
2,779,937

Cost of goods sold

-

1,924,579

-

-

1,924,579

Gross profit

62,846

855,358

21,473

(84,319)

855,358

Selling, general and  
administrative  
expenses

57,134

643,416

139

14,258

(84,319)

630,489

Operating profit

5,712

211,942

7,215

-

224,869

Interest income

(12,542)

(1,081)

(4,226)

17,755

(94)

Interest expense

94,261

12,724

5

141

(17,755)

89,235

Other (income)  
expense

1,667

-

-

-

1,667

Income (loss)  
before income taxes

(77,674)

142

200,299

11,436

-

134,061

Income tax expense  
(benefit)

(29,690)

76,830

3,915

-

143

51,055

Equity in  
subsidiaries  
earnings, net of  
taxes

130,990

-

-

(130,990)

-

Net income

\$

83,006

\$  
123,469

\$  
7,521

\$  
(130,990)

\$  
83,006

**For the 13 weeks  
ended April 30,  
2010**

**DOLLAR  
GENERAL  
CORPORATION**

**GUARANTOR  
SUBSIDIARIES**

**OTHER  
SUBSIDIARIES**

**ELIMINATIONS**

**CONSOLIDATED**

**TOTAL**

**STATEMENTS  
OF CASH  
FLOWS:**

*Cash flows from  
operating activities:*

Net income

\$

135,996

\$  
167,463

\$  
6,470

\$  
(173,933)

\$  
135,996

Adjustments to  
reconcile net  
income to net cash  
provided by (used  
in) operating  
activities:

Depreciation and  
amortization

8,518

54,724

10

-

63,252

Deferred income  
taxes

9,157

149

3,812

(2,940)

-

10,029

Tax benefit of stock  
options

(4,806)

-

-

-

(4,806)

Non-cash  
share-based  
compensation

4,979

-

-

-

4,979

Other non-cash  
gains and losses

346

151

1,287

-

-

1,633

Equity in  
subsidiaries  
earnings, net

(173,933)

-

-

173,933

-

Change in operating  
assets and  
liabilities:

Merchandise  
inventories

-

(85,176)

-

-

(85,176)

Prepaid expenses  
and other current  
assets

(1,202)

(12,382)

81

-

(13,503)

154

Accounts payable

(16,314)

(20,634)

(6)

-

(36,954)

Accrued expenses  
and other

1,567

(29,844)

(2,684)

-

(30,961)

Income taxes

34,982

1,879

5,649

-

42,510

Other

156

1

(28)

1

-

(26)

Net cash provided  
by (used in)  
operating activities

(709)

81,101

6,581

157

-

86,973

*Cash flows from  
investing activities:*

Purchases of  
property and  
equipment

(6,086)

(84,899)

(13)

-

(90,998)

Proceeds from sale  
of property and  
equipment

-

258

-

-

159

258

Net cash used in  
investing activities

(6,086)

(84,641)

(13)

-

(90,740)

*Cash flows from  
financing activities:*

Issuance of  
common stock

285

-

-

-

Repayments of  
long-term  
obligations

-

(463)

-

-

(463)

Repurchases of  
equity

(228)

-

-

-

(228)

Tax benefit of stock  
options

4,806

4,806

163

Changes in  
intercompany note  
balances, net

(2,090)

4,821

(2,731)

-

-

Net cash provided  
by (used in)  
financing activities

2,773

4,358

(2,731)

-

4,400

Net increase  
(decrease) in cash  
and cash  
equivalents

(4,022)

818

3,837

-

633

165

Cash and cash  
equivalents,  
beginning of period

97,620

103,001

21,455

-

222,076

Cash and cash  
equivalents, end of  
period

\$

93,598

\$

103,819

\$  
25,292

\$  
-

\$  
222,709

**For the 13 weeks  
ended May 1, 2009**

**DOLLAR  
GENERAL  
CORPORATION**

**GUARANTOR  
SUBSIDIARIES**

**OTHER  
SUBSIDIARIES**

**ELIMINATIONS**

**CONSOLIDATED**

**TOTAL**

**STATEMENTS  
OF CASH  
FLOWS:**

*Cash flows from  
operating activities:*

Net income

\$

83,006

\$

123,469

\$

7,521

\$

(130,990)

\$

83,006

Adjustments to  
reconcile net  
income to net cash  
provided by (used  
in) operating  
activities:

Depreciation and  
amortization

8,833

55,639

59

-

64,531

Deferred income  
taxes

9,587

171

4,939

935

-

15,461

Non-cash  
share-based  
compensation

2,938

-

-

-

172

2,938

Other non-cash  
gains and losses

900

360

-

-

1,260

Equity in  
subsidiaries  
earnings, net

(130,990)

-

-

130,990

-

Change in operating  
assets and  
liabilities:

Merchandise  
inventories

-

(39,040)

-

-

(39,040)

Prepaid expenses  
and other current  
assets

740

(4,118)

175

366

-

(3,012)

Accounts payable

(5,886)

16,469

(5)

-

10,578

176

Accrued expenses  
and other

(26,202)

(21,070)

(3,096)

-

(50,368)

Income taxes

19,012

1,215

3,109

177

-

23,336

Other

(55)

258

-

-

203

Net cash provided  
by (used in)  
operating activities

(38,117)

138,121

8,889

-

108,893

*Cash flows from  
investing activities:*

Purchases of  
property and  
equipment

(2,057)

(49,746)

(22)

-

(51,825)

Proceeds from sale  
of property and  
equipment

-

180

152

-

-

152

Net cash used in  
investing activities

(2,057)

(49,594)

(22)

-

181

(51,673)

*Cash flows from  
financing activities:*

Issuance of  
common stock

620

182

-

-

-

620

Repayments of  
long-term  
obligations

-

(999)

-

-

(999)

Repurchases of  
equity

(252)

-

-

-

(252)

Changes in  
intercompany note  
balances, net

80,469

(71,091)

184

(9,378)

-

-

Net cash provided  
by (used in)  
financing activities

80,837

(72,090)

(9,378)

-

(631)

185

Net increase  
(decrease) in cash  
and cash  
equivalents

40,663

16,437

(511)

-

56,589

Cash and cash  
equivalents,  
beginning of period

292,637

64,404

20,954

-

377,995

Cash and cash  
equivalents, end of  
period

\$

333,300

\$

80,841

\$

20,443

\$

-

\$

434,584

187



**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Dollar General Corporation:

We have reviewed the condensed consolidated balance sheet of Dollar General Corporation and subsidiaries (the Company) as of April 30, 2010, and the related condensed consolidated statements of operations and cash flows for the three month periods ended April 30, 2010 and May 1, 2009. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Dollar General Corporation as of January 29, 2010 and the related consolidated statements of operations, shareholders' equity, and cash flows for the fiscal year then ended (not presented herein) and in our report dated March 31, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of April 30, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

June 8, 2010

Nashville, Tennessee

## ITEM 2.

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

#### General

This discussion and analysis is based on, should be read with, and is qualified in its entirety by, the accompanying unaudited condensed consolidated financial statements and related notes, as well as our consolidated financial statements and the related Management's Discussion and Analysis of Financial Condition and Results of Operations as contained in our Annual Report on Form 10-K for the year ended January 29, 2010. It also should be read in conjunction with the disclosure under "Cautionary Disclosure Regarding Forward-Looking Statements" in this report.

#### Executive Overview

We are the largest discount retailer in the United States by number of stores, with 8,965 stores located in 35 states as of April 30, 2010, primarily in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumable products such as food, paper and cleaning products, health and beauty products and pet supplies, and non-consumable products such as seasonal merchandise, home decor and domestics, and apparel. Our merchandise includes high quality national brands from leading manufacturers, as well as comparable quality private brand selections with prices at substantial discounts to national brands. We offer our customers these national brand and private brand products at everyday low prices (typically \$10 or less) in our convenient small-box (small store) locations.

The customers we serve are value-conscious, and Dollar General has always been intensely focused on helping our customers make the most of their spending dollars. We believe our convenient store format and broad selection of high quality products at compelling values have driven our substantial growth and financial success over the years. Like other companies, over the past two years we have been operating in an environment with heightened economic challenges and uncertainties. Consumers are facing very high rates of unemployment, fluctuating food, gasoline and energy costs, rising medical costs, and a continued weakness in housing and credit markets, and the timetable for economic recovery is uncertain. Nonetheless, as a result of our long-term mission of serving the value-conscious customer, coupled with a vigorous focus on improving our operating and financial performance, we remain optimistic with regard to executing our operating priorities in 2010.

At the beginning of 2008, we defined the following four operating priorities on which we remain keenly focused:

drive productive sales growth,

.  
increase our gross margins,

.  
leverage process improvements and information technology to reduce costs, and

.  
strengthen and expand Dollar General's culture of serving others.

Our first priority is driving productive sales growth by increasing shopper frequency and transaction amount and maximizing sales per square foot. We have enhanced our category management processes, allowing us to continue expanding our product offerings while also improving profitability, by adding more productive items and eliminating unproductive items. We are utilizing the space in our stores more productively by raising the height of our merchandise fixtures and implementing more consistent space planning. In addition, we are making significant progress in defining and improving our store standards with a goal of developing a consistent look and feel across all stores. We opportunistically extended our store hours for our customers' convenience and are targeting both new and existing customers with our improved advertising circulars. Finally, we believe we have significant potential to grow sales through new store growth in both existing and new markets. We plan to open approximately 600 new stores in fiscal 2010, including 155 stores opened in the first quarter.

Our second priority is to increase gross profit through category management, distribution efficiencies, shrink reduction, an improved pricing model, expansion of private brand offerings and increased foreign sourcing. Our merchandising team has been successful in efforts to upgrade our merchandise selection to better serve our customers while managing our everyday low price strategy. We constantly review our pricing strategy and work diligently to minimize product cost increases and to remain competitive. We are focused on sales of private brands, which generally have higher gross profit rates than national brands, while we continue to offer a wide variety of national brands to ensure an optimal mix of product offerings. Our operations group continues to be highly focused on all inventory shrink reduction initiatives, while our supply chain team continues its efforts to increase efficiencies, with the goal of leveraging transportation and distribution expenses despite recent increases in fuel costs.

Our third priority is leveraging process improvements and information technology to reduce costs. We are committed as an organization to extract costs that do not affect the customer experience. Examples of cost reduction initiatives include our focus on safety to reduce workers' compensation expense, the improvement of energy management in our stores through the installation of energy management systems and increased preventive maintenance, and the reduction of waste management costs through recycling of cardboard. In addition, our real estate team has had success in negotiating lease renewals which we anticipate will benefit us going forward.

Our fourth priority is to strengthen and expand Dollar General's culture of serving others. For customers this means helping them "Save time. Save money. Every day!" by providing clean, well-stocked stores with quality products at low prices. For employees, this means creating an environment that attracts and retains key employees throughout the organization. For the public, this means giving back to our store communities. For shareholders, this means meeting their expectations of an efficiently and profitably run organization that operates with compassion and integrity.

Focus on these priorities has resulted in improved performance in the first quarter of 2010 over the comparable 2009 period in many of our key financial metrics, as follows. Basis points amounts referred to below are equal to 0.01% as a percentage of sales.



Total sales increased 11.9% to \$3.11 billion. Sales in same-stores increased 6.7% driven by increases in customer traffic and average transaction amount. Average sales per square foot for all stores over the 52-week period ended April 30, 2010 were approximately \$197, up from \$185 for the comparable prior 52-week period.

Gross profit, as a percentage of sales, increased to 32.1% compared to 30.8% in the 2009 period. This increase was primarily the result of higher average markups, partially offset by higher markdowns, and was driven by efforts to reduce our merchandise purchase costs, including improvements in our global sourcing capabilities, while maintaining our everyday low prices. Increased markups are also impacted by strategic changes to our mix of merchandise, such as increased private brand items.

Inventory turnover improved to 5.3 times on a rolling four-quarter basis compared to 5.2 times for the corresponding prior year period.

Selling, general and administrative expenses, or SG&A, as a percentage of sales, was 22.8% compared to 22.7% in the 2009 quarter. Certain share-based compensation and other related expenses resulting from a secondary offering of our common stock in the 2010 quarter totaled \$15.0 million, or 48 basis points. Excluding these expenses, SG&A as a percentage of sales declined due primarily to our significant sales increase.

Operating profit, as a percentage of sales, was 9.3% compared to 8.1% in the 2009 first quarter, an improvement of 125 basis points, without adjusting for the 48 basis points effect of expenses resulting from the secondary offering noted above.

Interest expense decreased by \$17.2 million to \$72.0 million in the 2010 first quarter primarily due to a \$733 million reduction of long-term obligations since the first quarter of 2009. Total long-term obligations as of April 30, 2010 were \$3.40 billion.

Net income was equal to \$136.0 million, or \$0.39 per diluted share, compared to net income of \$83.0 million, or \$0.26 per diluted share, in the 2009 quarter.

Cash generated from operating activities was \$87.0 million. At April 30, 2010, we had a cash balance of \$222.7 million.

Also during the 2010 first quarter, we opened 155 new stores, remodeled or relocated 128 stores, and closed 18 stores, resulting in a store count of 8,965 on April 30, 2010.

Like other companies, we face uncertainties with regard to the future impact of healthcare reform legislation, including the Patient Protection and Affordable Care Act and the HealthCare and Education Reconciliation Act of 2010, signed into law in March 2010 which will likely affect the cost associated with employer-sponsored medical plans. Specifically, this legislation requires that employers provide a minimum level of coverage for full-time employees or pay penalties. Some of the plan coverage requirements may have an impact on our costs such as bans

on exclusions for pre-existing conditions, extension of dependent coverage to age 26, and caps on employee premium sharing costs. Certain coverage provisions do not go into effect until 2014, but there are a number of dependent coverage and insurance market reforms that will take effect immediately. Although we do not expect this legislation will have a material effect on our consolidated financial statements in fiscal 2010, we are currently evaluating the impact it will have on our costs in future years, and those costs could be material. Our analysis depends in part upon future guidance yet to be developed by federal agencies interpreting the legislation, and any estimates we develop could be significantly affected by any changes to or agency interpretation of the legislation prior to its full implementation.

The above discussion is a summary only. Readers should refer to the detailed discussion of our operating results below for the full analysis of our financial performance in the current year period as compared with the prior year period.

## **Results of Operations**

*Accounting Periods.* We follow the concept of a 52-53 week fiscal year that ends on the Friday nearest to January 31. The following text contains references to years 2010 and 2009, which represent 52-week fiscal years ending or ended January 28, 2011 and January 29, 2010, respectively. Consequently, references to quarterly accounting periods for 2010 and 2009 contained herein refer to 13-week accounting periods.

*Seasonality.* The nature of our business is seasonal to a certain extent. Primarily because of sales of holiday-related merchandise, sales in the fourth quarter have historically been higher than sales achieved in each of the first three quarters of the fiscal year. Expenses and, to a greater extent, operating income, vary by quarter. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of our business may affect comparisons between periods.

Edgar Filing: DOLLAR GENERAL CORP - Form 10-Q

The following table contains results of operations data for the first 13 weeks of each of 2010 and 2009, and the dollar and percentage variances among those periods:

13 Weeks  
Ended

2010 vs. 2009

(in millions)

April 30,  
2010

May 1,  
2009

*Amount  
change*

*%  
change*

Net sales by  
category:

Consumables

\$

2,231.5

\$

1,995.8

\$

235.7

11.8

%

*% of net sales*

71.72%

71.79%

Seasonal

430.1

356.5

73.6

20.6

*% of net sales*

13.82%

12.82%

Home  
products

224.9

216.9

8.0

3.7

*% of net sales*

7.23%

7.80%

Apparel

224.9

210.8

14.1

6.7

*% of net sales*

7.23%

7.58%

Net sales

3,111.3

201

2,779.9

331.4

11.9

Cost of goods  
sold

2,111.6

1,924.6

187.0

9.7

*% of net sales*

67.87%

69.23%

Gross profit

999.8

855.4

144.4

16.9

*% of net sales*

32.13%

30.77%

203

Selling,  
general and  
administrative  
expenses

709.0

630.5

78.5

12.5

*% of net sales*

22.79%

22.68%

Operating  
profit

290.7

224.9

65.9

29.3

*% of net sales*

9.34%

8.09%

Interest  
income

(0.0)

(0.1)

0.1

(93.6)

*% of net sales*

(0.00)%

(0.00)%

Interest  
expense

72.0

89.2

(17.2)

(19.3)

*% of net sales*

2.31%

3.21%

Other  
(income)  
expense

0.1

1.7

(1.5)

(91.3)

*% of net sales*

0.00%

0.06%

Income before  
income taxes

218.6

134.1

84.5

63.0

*% of net sales*

7.02%

4.82%

Income tax  
expense

82.6

51.1

31.5

61.7

*% of net sales*

2.65%

1.84%

Net income

\$

136.0

\$

83.0

\$

53.0

63.8

%

*% of net sales*

4.37%

2.99%

Diluted  
earnings per  
share

\$  
0.39

\$  
0.26

\$  
0.13

50.0  
%

**13 WEEKS ENDED APRIL 30, 2010 AND MAY 1, 2009**

*Net Sales.* The net sales increase in the 2010 first quarter reflects a same-store sales increase of 6.7% compared to the 2009 quarter. Same-stores include stores that have been open for 13 months and remain open at the end of the reporting period. For the 2010 quarter, there were 8,362 same-stores which accounted for sales of \$2.94 billion. The remainder of the sales increase was attributable to new stores, partially offset by sales from closed stores.

We believe that the increase in sales reflects the impact of various operating and merchandising initiatives discussed in the Executive Overview, including the impact of improved store standards and the expansion of our merchandise offerings, in addition to improved utilization of store square footage, extended store hours and improved marketing efforts.

*Gross Profit.* The gross profit rate as a percentage of sales was 32.1% in the 2010 first quarter compared to 30.8% in the 2009 first quarter. The increase in the 2010 gross profit rate resulted primarily from higher purchase markups, partially offset by increased markdowns due to the acceleration of certain planogram resets. Increased sales volumes and our improved global sourcing capabilities have contributed to our ability to reduce product costs. In addition, our increased mix of private brands has contributed to increased markups. Transportation and distribution costs increased in the 2010 quarter, with higher fuel costs being the most significant factor. Distribution costs were higher as a percentage of sales due to increased labor costs primarily resulting from recent inventory management initiatives.

*SG&A Expense.* SG&A was 22.8% as a percentage of sales in the 2010 first quarter compared to 22.7% in the 2009 first quarter, an increase of 11 basis points. SG&A in the 2010 quarter includes expenses totaling \$15.0 million, or 48 basis points, relating to a secondary offering of our common stock during the quarter, including \$0.7 million of legal and other transaction expenses and \$14.3 million relating to the acceleration of certain equity appreciation rights. As a percentage of total sales, items positively affecting SG&A expense during the 2010 period include the following: costs in the 2009 period for productivity initiatives that did not recur in the 2010 period and reductions in utilities costs in general and waste management costs in particular as a result of our recycling efforts; offset by overall increases in retail salaries due in part to the acceleration of various merchandising initiatives resulting in higher store labor hours as well as an increase in certain minimum wage rates.

*Interest Income.* Interest income consists primarily of interest on investments. The decrease in interest income in the 2010 period compared to the 2009 period was the result of reduced investments in interest-bearing instruments.

*Interest Expense.* The decrease in interest expense in the 2010 period from the 2009 period is due to lower outstanding borrowings, resulting from our repurchases of indebtedness in 2009.

*Income Taxes.* The effective income tax rate for the 2010 period was 37.8% compared to a rate of 38.1% for the 2009 period which represents a net decrease of 0.3%.

## **Accounting Pronouncements**

In June 2009 the FASB issued new accounting guidance relating to variable interest entities. This standard amends previous standards and requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity, specifies updated criteria for determining the primary beneficiary, requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity, eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, amends certain guidance for determining whether an entity is a variable interest entity, requires enhanced disclosures about an enterprise's involvement in a variable interest entity, and includes other provisions. This standard was effective as of January 30, 2010, the beginning of our fiscal year. The adoption of this guidance did not have a material impact on our consolidated financial statements and is not currently expected to be material in future periods.



## Liquidity and Capital Resources

### *Credit Facilities*

We have two senior secured credit facilities (the *Credit Facilities*) which provide financing of up to \$2.995 billion as of April 30, 2010. The *Credit Facilities* consist of a \$1.964 billion senior secured term loan facility (*Term Loan Facility*) and a senior secured asset-based revolving credit facility (*ABL Facility*). Total commitments under the *ABL Facility* are equal to \$1.031 billion (of which up to \$350.0 million is available for letters of credit), subject to borrowing base availability. The *ABL Facility* includes borrowing capacity available for letters of credit and for short-term borrowings referred to as swingline loans.

The amount available under the *ABL Facility* (including letters of credit) is subject to certain borrowing base limitations. The *ABL Facility* includes a last out tranche in respect of which we may borrow up to a maximum amount of \$101.0 million.

Borrowings under the *Credit Facilities* bear interest at a rate equal to an applicable margin plus, at our option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). The applicable margin for borrowings is (i) under the term loan facility, 2.75% for LIBOR borrowings and 1.75% for base-rate borrowings (ii) as of April 30, 2010, under the *ABL Facility* (except in the last out tranche described above), 1.25% for LIBOR borrowings and 0.25% for base-rate borrowings; and for any last out borrowings, 2.25% for LIBOR borrowings and 1.25% for base-rate borrowings. The applicable margins for borrowings under the *ABL Facility* (except in the case of last out borrowings) are subject to adjustment each quarter based on average daily excess availability under the *ABL Facility*. We are also required to pay a commitment fee to the lenders under the *ABL Facility* for any unutilized commitments at a rate of 0.375% per annum. We also must pay customary letter of credit fees.

Under the *Term Loan Facility* we are required to prepay outstanding term loans, subject to certain exceptions, with up to 50% of our annual excess cash flow (as defined in the credit agreement) which will be reduced to 25% and 0% if we achieve and maintain a total net leverage ratio of 6.0 to 1.0 and 5.0 to 1.0, respectively; the net cash proceeds of certain non-ordinary course asset sales or other dispositions of property; and the net cash proceeds of any incurrence of debt other than proceeds from debt permitted under the senior secured credit agreement. Through April 30, 2010, no prepayments have been required under the prepayment provisions listed above. The *Term Loan Facility* can be prepaid in whole or in part at any time.

We voluntarily prepaid \$325.0 million of the *Term Loan Facility* in January 2010 and, as a result, no further principal payments will be required prior to its maturity on July 6, 2014, assuming no mandatory prepayment provisions are triggered before such date. There is no amortization under the *ABL Facility*. The entire principal amounts (if any) outstanding under the *ABL Facility* are due and payable in full at maturity on July 6, 2013.

In addition, we are required to prepay the ABL Facility, subject to certain exceptions, with the net cash proceeds of all non-ordinary course asset sales or other dispositions of revolving facility collateral (as defined in the senior secured credit agreement); and to the extent

such extensions of credit exceed the then current borrowing base. Through April 30, 2010, no prepayments have been required under any prepayment provisions.

We may voluntarily repay outstanding loans under the Term Loan Facility or the ABL Facility at any time without premium or penalty, other than customary breakage costs with respect to LIBOR loans.

All obligations under the Credit Facilities are unconditionally guaranteed by substantially all of our existing and future domestic subsidiaries (excluding certain immaterial subsidiaries and certain subsidiaries designated by us under our senior secured credit agreements as unrestricted subsidiaries), referred to, collectively, as U.S. Guarantors.

All obligations and related guarantees under the Term Loan Facility are secured by:

.  
a second-priority security interest in all existing and after-acquired inventory, accounts receivable, and other assets arising from such inventory and accounts receivable, of our company and each U.S. Guarantor (the Revolving Facility Collateral), subject to certain exceptions;

.  
a first-priority security interest in, and mortgages on, substantially all of our and each U.S. Guarantor's tangible and intangible assets (other than the Revolving Facility Collateral); and

.  
a first-priority pledge of 100% of the capital stock held by us, or any of our domestic subsidiaries that are directly owned by us or one of the U.S. Guarantors and 65% of the voting capital stock of each of our existing and future foreign subsidiaries that are directly owned by us or one of the U.S. Guarantors.

All obligations and related guarantees under the ABL Facility are secured by the Revolving Facility Collateral, subject to certain exceptions.

The senior secured credit agreements contain a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to: incur additional indebtedness; sell assets; pay dividends and distributions or repurchase our capital stock; make investments or acquisitions; repay or repurchase subordinated indebtedness (including the Senior Subordinated Notes discussed below) and the Senior Notes discussed below; amend material agreements governing our subordinated indebtedness (including the Senior Subordinated Notes discussed below) or our Senior Notes discussed below; or change our lines of business. The senior secured credit agreements also contain certain customary affirmative covenants and events of default.

At April 30, 2010, we had no borrowings, \$17.3 million of commercial letters of credit, and \$76.6 million of standby letters of credit outstanding under our ABL Facility.

*Senior Notes due 2015 and Senior Subordinated Toggle Notes due 2017*

As of April 30, 2010, we have \$979.3 million aggregate principal amount of 10.625% senior notes due 2015 (the Senior Notes ) outstanding (reflected in our consolidated balance sheet net of a \$14.3 million discount), which mature on July 15, 2015, pursuant to an indenture

dated as of July 6, 2007 (the senior indenture ), and \$450.7 million aggregate principal amount of 11.875%/12.625% senior subordinated toggle notes due 2017 (the Senior Subordinated Notes ) outstanding, which mature on July 15, 2017, pursuant to an indenture dated as of July 6, 2007 (the senior subordinated indenture ). The Senior Notes and the Senior Subordinated Notes are collectively referred to herein as the Notes. The senior indenture and the senior subordinated indenture are collectively referred to herein as the indentures.

Interest on the Notes is payable on January 15 and July 15 of each year. Interest on the Senior Notes is payable in cash. Cash interest on the Senior Subordinated Notes accrues at a rate of 11.875% per annum, and PIK interest (as defined below) accrues at a rate of 12.625% per annum. For any interest period subsequent to the initial interest period through July 15, 2011, we may elect to pay interest on the Senior Subordinated Notes (i) in cash, (ii) by increasing the principal amount of the Senior Subordinated Notes or issuing new Senior Subordinated Notes ( PIK interest ) or (iii) by paying interest on half of the principal amount of the Senior Subordinated Notes in cash interest and half in PIK interest. After July 15, 2011, all interest on the Senior Subordinated Notes will be payable in cash. Through April 30, 2010, all interest on the Senior Subordinated Notes has been paid in cash.

We may redeem some or all of the Notes at any time at redemption prices described or set forth in the indentures. We also may seek, from time to time, to retire some or all of the Notes through cash purchases on the open market, in privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. On May 6, 2010, we repurchased in the open market \$50.0 million aggregate principal amount of Senior Notes at a price of 111.0% plus accrued and unpaid interest. The pretax loss on this transaction of approximately \$6.5 million will be reflected in our consolidated financial statements for the second quarter of 2010.

Upon the occurrence of a change of control, which is defined in the indentures, each holder of the Notes has the right to require us to repurchase some or all of such holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

The indentures contain covenants limiting, among other things, our ability and the ability of our restricted subsidiaries to (subject to certain exceptions): incur additional debt, issue disqualified stock or issue certain preferred stock; pay dividends on or make certain distributions and other restricted payments; create certain liens or encumbrances; sell assets; enter into transactions with affiliates; make payments to us; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; or designate our subsidiaries as unrestricted subsidiaries.

The indentures also provide for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on the Notes to become or to be declared due and payable.



*Adjusted EBITDA*

Under the agreements governing the Credit Facilities and the indentures, certain limitations and restrictions could arise if we are not able to satisfy and remain in compliance with specified financial ratios. Management believes the most significant of such ratios is the senior secured incurrence test under the Credit Facilities. This test measures the ratio of the senior secured debt to Adjusted EBITDA. This ratio would need to be no greater than 4.25 to 1 to avoid such limitations and restrictions. As of April 30, 2010, this ratio was 1.3 to 1. Senior secured debt is defined as our total debt secured by liens or similar encumbrances less cash and cash equivalents. EBITDA is defined as income (loss) from continuing operations before cumulative effect of change in accounting principle plus interest and other financing costs, net, provision for income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA, further adjusted to give effect to adjustments required in calculating this covenant ratio under our Credit Facilities. EBITDA and Adjusted EBITDA are not presentations made in accordance with U.S. GAAP, are not measures of financial performance or condition, liquidity or profitability, and should not be considered as an alternative to (1) net income, operating income or any other performance measures determined in accordance with U.S. GAAP or (2) operating cash flows determined in accordance with U.S. GAAP. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not consider certain cash requirements such as interest payments, tax payments and debt service requirements and replacements of fixed assets.

Our presentation of EBITDA and Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Because not all companies use identical calculations, these presentations of EBITDA and Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. We believe that the presentation of EBITDA and Adjusted EBITDA is appropriate to provide additional information about the calculation of this financial ratio in the Credit Facilities. Adjusted EBITDA is a material component of this ratio. Specifically, non-compliance with the senior secured indebtedness ratio contained in our Credit Facilities could prohibit us from making investments, incurring liens, making certain restricted payments and incurring additional secured indebtedness (other than the additional funding provided for under the senior secured credit agreement and pursuant to specified exceptions).

The calculation of Adjusted EBITDA under the Credit Facilities is as follows:

13-weeks  
ended

52-weeks  
ended

*(in millions)*

April 30,  
2010

May 1,  
2009

April 30,  
2010

January 29,  
2010

Net income

\$

136.0

\$

83.0

\$

392.4

\$

339.4

Add  
(subtract):

Interest  
income

(0.0)

(0.1)

(0.0)

(0.1)

Interest  
expense

72.0

89.2

328.4

345.6

Depreciation  
and  
amortization

60.1

61.2

240.6

241.7

Income taxes

82.6

51.1

244.2

212.7

EBITDA

350.7

284.4

1,205.6

1,139.3

Adjustments:

Loss on debt  
retirements

-

-

55.3

55.3

(Gain) loss  
on hedging  
instruments

0.1

0.7

(0.1)

0.5

Impact of  
markdowns  
related to

inventory  
clearance  
activities, net  
of purchase  
accounting  
adjustments

-

(3.5)

(3.8)

(7.3)

Advisory and  
consulting  
fees to  
affiliates

0.1

1.6

62.0

63.5

Non-cash  
expense for  
share-based  
awards

6.1

2.9

21.9

18.7

Indirect costs  
related to  
merger and  
stock  
offering

0.8

4.4

7.0

10.6

Other  
non-cash  
charges  
(including  
LIFO)

1.8

0.5

7.9

6.6

Total  
Adjustments

8.9

6.6

150.2

147.9

Adjusted  
EBITDA

\$

359.6

\$

291.0

\$

1,355.8

\$

1,287.2

*Current Financial Condition / Recent Developments*

At April 30, 2010, we had total outstanding debt (including the current portion of long-term obligations) of approximately \$3.40 billion. We had \$937.1 million available for borrowing under our ABL Facility at that date. Our liquidity needs are significant, primarily due to our debt service and other obligations. However, we believe our cash flow from operations and existing cash balances, combined with availability under the Credit Facilities, will provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for a period that includes the next twelve months as well as the next several years.

Our inventory balance represented approximately 48% of our total assets exclusive of goodwill and other intangible assets as of April 30, 2010. Our proficiency in managing our inventory balances can have a significant impact on our cash flows from operations during a given fiscal year. Inventory purchases are often somewhat seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise. Efficient management of our inventory continues to be an important component of our efforts to increase gross margins.

As described in Note 7 to the condensed consolidated financial statements, we are involved in a number of legal actions and claims, some of which could potentially result in material cash payments. Adverse developments in those actions could materially and adversely

affect our liquidity. We also have certain income tax-related contingencies as more fully described below under Critical Accounting Policies and Estimates and in Note 4 to the condensed consolidated financial statements. Future negative developments could have a material adverse effect on our liquidity.

*Cash flows from operating activities.* The most significant components of the change in cash flows from operating activities in the 2010 period as compared to the 2009 period were related to working capital in general and merchandise inventories and accounts payable in particular. Although we continue to closely monitor our inventory balances, they may fluctuate from year to year based on new store openings, the timing of purchases, and other factors. Merchandise inventories increased by 6% overall during the first quarter of 2010 compared to a 3% overall increase during the first quarter of 2009. Inventory levels in our four inventory categories in the 2010 period compared to the respective 2009 period were as follows: the consumables category increased 7% in both periods; the seasonal category increased by 7% compared to a 1% increase; the home products category was virtually unchanged compared to a decline of 4%; and apparel increased by 2% compared to a 2% decline. Nevertheless, on a trailing four quarter basis, inventory turns increased in 2010 as compared to 2009. Accounts payable decreased by \$37.0 million in the 2010 period compared to an increase of \$10.6 million in the 2009 period, also reflecting the timing of purchases and the related payments for inventory. Cash flows from operating activities in the 2010 period compared to the 2009 period were positively impacted by our strong operating performance due to greater sales and higher gross margins, as described in more detail above under Results of Operations.

*Cash flows from investing activities.* Significant components of property and equipment purchases in the 2010 period included the following approximate amounts: \$38 million for improvements and upgrades to existing stores; \$28 million for new stores; \$14 million for remodels and relocations of existing stores; and \$7 million for distribution and transportation related purchases. The timing of new, remodeled and relocated store openings along with other factors may affect the relationship between such openings and the related property and equipment purchases in any given period. During the 2010 period, we opened 155 new stores and remodeled or relocated 128 stores.

Significant components of property and equipment purchases in the 2009 period included the following approximate amounts: \$35 million for improvements and upgrades to existing stores; \$9 million for new stores and \$4 million for remodels and relocations of existing stores. During the 2009 period, we opened 104 new stores and remodeled or relocated 100 stores.

Capital expenditures for the 2010 fiscal year are projected to be approximately \$325 to \$350 million. We anticipate funding our 2010 capital requirements with cash flows from operations and if necessary, we also have significant availability under our ABL Facility.

*Cash flows from financing activities.* We had no borrowings or repayments under the ABL Facility in the 2010 or 2009 periods.



## Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. In addition to the estimates presented below, there are other items within our financial statements that require estimation, but are not deemed critical as defined below. We believe these estimates are reasonable and appropriate. However, if actual experience differs from the assumptions and other considerations used, the resulting changes could have a material effect on the financial statements taken as a whole.

Management believes the following policies and estimates are critical because they involve significant judgments, assumptions, and estimates. Management has discussed the development and selection of the critical accounting estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosures presented below relating to those policies and estimates.

*Merchandise Inventories.* Merchandise inventories are stated at the lower of cost or market with cost determined using the retail last-in, first-out ( LIFO ) method. Under our retail inventory method ( RIM ), the calculation of gross profit and the resulting valuation of inventories at cost are computed by applying a calculated cost-to-retail inventory ratio to the retail value of sales at a department level. The RIM is an averaging method that has been widely used in the retail industry due to its practicality. Also, it is recognized that the use of the RIM will result in valuing inventories at the lower of cost or market ( LCM ) if markdowns are currently taken as a reduction of the retail value of inventories.

Inherent in the RIM calculation are certain significant management judgments and estimates including, among others, initial markups, markdowns, and shrinkage, which significantly impact the gross profit calculation as well as the ending inventory valuation at cost. These significant estimates, coupled with the fact that the RIM is an averaging process, can, under certain circumstances, produce distorted cost figures. Factors that can lead to distortion in the calculation of the inventory balance include:

.  
applying the RIM to a group of products that is not fairly uniform in terms of its cost and selling price relationship and turnover;

.  
applying the RIM to transactions over a period of time that include different rates of gross profit, such as those relating to seasonal merchandise;

inaccurate estimates of inventory shrinkage between the date of the last physical inventory at a store and the financial statement date; and

.

inaccurate estimates of LCM and/or LIFO reserves.

Factors that reduce potential distortion include the use of historical experience in estimating the shrink provision (see discussion below) and an annual LIFO analysis whereby all SKUs are considered in the index formulation. An actual valuation of inventory under the LIFO

method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation/deflation for the year and are thus subject to adjustment in the final year-end LIFO inventory valuation. We also perform interim inventory analysis for determining obsolete inventory. Our policy is to write down inventory to an LCM value based on various management assumptions including estimated markdowns and sales required to liquidate such inventory in future periods. Inventory is reviewed on a quarterly basis and adjusted as appropriate to reflect write-downs determined to be necessary.

Factors such as slower inventory turnover due to changes in competitors' practices, consumer preferences, consumer spending and unseasonable weather patterns, among other factors, could cause excess inventory requiring greater than estimated markdowns to entice consumer purchases, resulting in an unfavorable impact on our consolidated financial statements. Sales shortfalls due to the above factors could cause reduced purchases from vendors and associated vendor allowances that would also result in an unfavorable impact on our consolidated financial statements.

We calculate our shrink provision based on actual physical inventory results during the fiscal period and an accrual for estimated shrink occurring subsequent to a physical inventory through the end of the fiscal reporting period. This accrual is calculated as a percentage of sales at each retail store, at a department level, and is determined by dividing the book-to-physical inventory adjustments recorded during the previous twelve months by the related sales for the same period for each store. To the extent that subsequent physical inventories yield different results than this estimated accrual, our effective shrink rate for a given reporting period will include the impact of adjusting the estimated results to the actual results. Although we perform physical inventories in virtually all of our stores on an annual basis, the same stores do not necessarily get counted in the same reporting periods from year to year, which could impact comparability in a given reporting period.

Our estimates and assumptions related to merchandise inventories have generally been accurate in recent years and we do not currently anticipate material changes in these estimates and assumptions.

*Goodwill and Other Intangible Assets.* We amortize intangible assets over their estimated useful lives unless such lives are deemed indefinite. If impairment indicators are noted, amortizable intangible assets are tested for impairment based on projected undiscounted cash flows, and, if impaired, written down to fair value based on either discounted projected cash flows or appraised values. Future cash flow projections are based on management's projections. Significant judgments required in this testing process may include projecting future cash flows, determining appropriate discount rates and other assumptions. Projections are based on management's best estimates given recent financial performance, market trends, strategic plans and other available information and in recent years have been materially accurate. Although not currently anticipated, changes in these estimates and assumptions could materially affect the determination of fair value or impairment. Future indicators of impairment could result in an asset impairment charge.



Under accounting standards for goodwill and other intangible assets, we are required to test such assets with indefinite lives for impairment annually, or more frequently if impairment indicators occur. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of our reporting unit based on valuation techniques (including a discounted cash flow model using revenue and profit forecasts) and comparing that estimated fair value with the recorded carrying value, which includes goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an implied fair value of goodwill. The determination of the implied fair value of goodwill would require us to allocate the estimated fair value of our reporting unit to its assets and liabilities. Any unallocated fair value represents the implied fair value of goodwill, which would be compared to its corresponding carrying value.

The impairment test for indefinite-lived intangible assets consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

We are not currently projecting a decline in cash flows that could be expected to have an adverse effect such as a violation of debt covenants or future goodwill impairment charges.

*Property and Equipment.* Property and equipment are recorded at cost. We group our assets into relatively homogeneous classes and generally provide for depreciation on a straight-line basis over the estimated average useful life of each asset class, except for leasehold improvements, which are amortized over the lesser of the applicable lease term or the estimated useful life of the asset. Certain store and warehouse fixtures, when fully depreciated, are removed from the cost and related accumulated depreciation and amortization accounts. The valuation and classification of these assets and the assignment of depreciable lives involves significant judgments and the use of estimates, which have been materially accurate in recent years.

*Impairment of Long-lived Assets.* We review the carrying value of all long-lived assets for impairment at least annually, and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In accordance with accounting standards for impairment or disposal of long-lived assets, we review for impairment stores open for approximately two years or more for which recent cash flows from operations are negative. Impairment results when the carrying value of the assets exceeds the estimated undiscounted future cash flows over the life of the lease. Our estimate of undiscounted future cash flows over the lease term is based upon historical operations of the stores and estimates of future store profitability which encompasses many factors that are subject to variability and are difficult to predict. If a long-lived asset is found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and the asset's estimated fair value. The fair value is estimated based primarily upon projected future cash flows (discounted at our credit adjusted risk-free rate) or other reasonable estimates of fair market value in accordance with U.S. GAAP.



*Insurance Liabilities.* We retain a significant portion of the risk for our workers' compensation, employee health, property loss, automobile and general liability. These represent significant costs primarily due to our large employee base and number of stores. Provisions are made to these liabilities on an undiscounted basis based on actual claim data and estimates of incurred but not reported claims developed using actuarial methodologies based on historical claim trends, which have been and are anticipated to continue to be materially accurate. If future claim trends deviate from recent historical patterns, we may be required to record additional expenses or expense reductions, which could be material to our future financial results.

*Contingent Liabilities - Income Taxes.* Income tax reserves are determined using the methodology established by accounting standards relating to uncertainty in income taxes. These standards require companies to assess each income tax position taken using a two step process. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If our determinations and estimates prove to be inaccurate, the resulting adjustments could be material to our future financial results.

*Contingent Liabilities - Legal Matters.* We are subject to legal, regulatory and other proceedings and claims. We establish liabilities as appropriate for these claims and proceedings based upon the probability and estimability of losses and to fairly present, in conjunction with the disclosures of these matters in our financial statements and SEC filings, management's view of our exposure. We review outstanding claims and proceedings with external counsel to assess probability and estimates of loss. We re-evaluate these assessments on a quarterly basis or as new and significant information becomes available to determine whether a liability should be established or if any existing liability should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded liability. In addition, because it is not permissible under U.S. GAAP to establish a litigation liability until the loss is both probable and estimable, in some cases there may be insufficient time to establish a liability prior to the actual incurrence of the loss (upon verdict and judgment at trial, for example, or in the case of a quickly negotiated settlement).

*Lease Accounting and Excess Facilities.* Many of our stores are subject to build-to-suit arrangements with landlords, which typically carry a primary lease term of 10-15 years with multiple renewal options. We also have stores subject to shorter-term leases (usually with initial or current terms of 3 to 5 years), and many of these leases have multiple renewal options. As of January 29, 2010, approximately 38% of our stores had provisions for contingent rentals based upon a percentage of defined sales volume. We recognize contingent rental expense when the achievement of specified sales targets is considered probable. We recognize rent expense over the term of the lease. We record minimum rental expense on a straight-line basis over the base, non-cancelable lease term commencing on the date that we take physical possession of the property from the landlord, which normally includes a period prior to store opening to make necessary leasehold improvements and install store fixtures. When a lease contains a



predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. Tenant allowances, to the extent received, are recorded as deferred incentive rent and amortized as a reduction to rent expense over the term of the lease. We reflect as a liability any difference between the calculated expense and the amounts actually paid. Improvements of leased properties are amortized over the shorter of the life of the applicable lease term or the estimated useful life of the asset.

For store closures (excluding those associated with a business combination) where a lease obligation still exists, we record the estimated future liability associated with the rental obligation on the date the store is closed in accordance with accounting standards for costs associated with exit or disposal activities. Based on an overall analysis of store performance and expected trends, management periodically evaluates the need to close underperforming stores. Liabilities are established at the point of closure for the present value of any remaining operating lease obligations, net of estimated sublease income, and at the communication date for severance and other exit costs. Key assumptions in calculating the liability include the timeframe expected to terminate lease agreements, estimates related to the sublease potential of closed locations, and estimation of other related exit costs. Historically, these estimates have not been materially inaccurate; however, if actual timing and potential termination costs or realization of sublease income differ from our estimates, the resulting liabilities could vary from recorded amounts. These liabilities are reviewed periodically and adjusted when necessary.

*Share-Based Payments.* Our share-based stock option awards are valued on an individual grant basis using the Black-Scholes-Merton closed form option pricing model. We believe that this model fairly estimates the value of our share-based awards. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the valuation of stock options, which affects compensation expense related to these options. These assumptions include an estimate of the fair value of our common stock, the term that the options are expected to be outstanding, an estimate of the volatility of our stock price (which is based on a peer group of publicly traded companies), applicable interest rates and the dividend yield of our stock. Our volatility estimates are based on a peer group due to our initial public offering in November 2009 and therefore our stock has been publicly traded for a relatively limited period of time. Other factors involving judgments that affect the expensing of share-based payments include estimated forfeiture rates of share-based awards. Historically, these estimates have not been materially inaccurate; however, if our estimates differ materially from actual experience, we may be required to record additional expense or reductions of expense, which could be material to our future financial results.

*Fair Value Measurements.* We measure fair value of assets and liabilities in accordance with applicable accounting standards, which require that fair values be determined based on the assumptions that market participants would use in pricing the asset or liability. These standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Therefore, Level 3 inputs are typically based on an entity's own assumptions, as there is little, if any, related market activity, and thus require the use of significant judgment and



estimates. Currently, we have no assets or liabilities that are valued based solely on Level 3 inputs.

Our fair value measurements are primarily associated with our derivative financial instruments, intangible assets, property and equipment, and to a lesser degree our investments. The values of our derivative financial instruments are determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. In recent years, these methodologies have produced materially accurate valuations.

*Derivative Financial Instruments.* We account for our derivative instruments in accordance with accounting standards for derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities, as amended and interpreted, which establish accounting and reporting requirements for such instruments and activities. These standards require that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value, and that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. See *Fair Value Measurements* above for a discussion of derivative valuations. Special accounting for qualifying hedges allows a derivative's gains and losses to either offset related results on the hedged item in the statement of operations or be accumulated in other comprehensive income, and requires that a company formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. We use derivative instruments to manage our exposure to changing interest rates, primarily with interest rate swaps.

In addition to making valuation estimates, we also bear the risk that certain derivative instruments that have been designated as hedges and currently meet the strict hedge accounting requirements may not qualify in the future as highly effective, as defined, as well as the risk that hedged transactions in cash flow hedging relationships may no longer be considered probable to occur. Further, new interpretations and guidance related to these instruments may be issued in the future, and we cannot predict the possible impact that such guidance may have on our use of derivative instruments going forward.

**ITEM 3.**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the fiscal year ended January 29, 2010.

**ITEM 4T.**

**CONTROLS AND PROCEDURES.**

(a)

*Disclosure Controls and Procedures.* Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b)

*Changes in Internal Control Over Financial Reporting.* There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended April 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1.**

**LEGAL PROCEEDINGS.**

The information contained in Note 7 to the unaudited condensed consolidated financial statements under the heading Legal proceedings contained in Part I, Item 1 of this Form 10-Q is incorporated herein by this reference.

**ITEM 1A.**

**RISK FACTORS.**

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the fiscal year ended January 29, 2010.

**ITEM 2.**

**UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

The following table contains information regarding purchases of our common stock made during the quarter ended April 30, 2010 by or on behalf of Dollar General or any affiliated purchaser, as defined by Rule 10b-18(a)(3) of the Securities Exchange Act of 1934:

|   |
|---|
| <b>Period</b>   |
| <b>Total Number<br/>of Shares<br/>Purchased (a)</b>   |
| <b>Average Price<br/>Paid per Share</b>   |
| <b>Total Number<br/>of Shares<br/>Purchased as<br/>Part of Publicly<br/>Announced Plans<br/>or Programs</b>   |
| <b>Maximum<br/>Number of<br/>Shares that May<br/>Yet Be<br/>Purchased Under<br/>the Plans or<br/>Programs</b> |

01/30/10-02/28/10

310,865

\$

22.56

-

-

-

-

-

-

-

-

03/01/10-03/31/10

24,911

\$  
22.92

04/01/10-04/30/10  
90,627

\$  
26.66

Total  
426,403

\$

23.45

(a) Represents 10,858 shares repurchased from employees pursuant to the terms of management stockholder s agreements and 415,545 shares accepted in lieu of cash to pay employee exercise price and/or taxes in connection with stock options exercises.

**ITEM 6.**

**EXHIBITS.**

See the Exhibit Index immediately following the signature page hereto, which Exhibit Index is incorporated by reference as if fully set forth herein.



## CAUTIONARY DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We include forward-looking statements within the meaning of the federal securities laws throughout this report, particularly under Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 7. Commitments and Contingencies. You can identify these statements because they are not limited to historical fact or they use words such as may, will, should, expect, believe, anticipate, project, plan, estimate, could, and similar expressions that concern our strategy, plans, intentions or beliefs about future occurrences or results. For example, statements relating to estimated and projected expenditures, cash flows, results of operations, financial condition and liquidity; plans and objectives for future operations, growth or initiatives; and the expected outcome or effect of pending or threatened litigation or audits are forward-looking statements.

Forward-looking statements are subject to risks and uncertainties that may change at any time, so our actual results may differ materially from those that we expected. We derive many of these statements from our operating budgets and forecasts, which are based on many detailed assumptions that we believe are reasonable. However, it is very difficult to predict the effect of known factors, and we cannot anticipate all factors that could affect our actual results.

Important factors that could cause actual results to differ materially from the expectations expressed in our forward-looking statements include, without limitation

·  
failure to successfully execute our growth strategy, including delays in store growth, difficulties executing sales and operating profit margin initiatives and inventory shrinkage reduction;

·  
the failure of our new store base to achieve sales and operating levels consistent with our expectations;

·  
risks and challenges in connection with sourcing merchandise from domestic and foreign vendors, as well as trade restrictions;

·  
our level of success in gaining and maintaining broad market acceptance of our private brands and in achieving our other initiatives;

·  
unfavorable publicity or consumer perception of our products;

our debt levels and restrictions in our debt agreements;

.

economic conditions, including their effect on the financial and capital markets, our suppliers and business partners, employment levels, consumer demand, disposable income, credit availability and spending patterns, inflation; and the cost of goods;

.

increases in commodity prices (including, without limitation, cotton, oil, paper and resin);

.

levels of inventory shrinkage;

.

seasonality of our business;

.

increases in costs of fuel or other energy, transportation or utilities costs and in the costs of labor, employment and health care;

.

the impact of changes in or noncompliance with governmental laws and regulations (including, but not limited to, product safety, healthcare and unionization) and developments in or outcomes of legal proceedings, investigations or audits;

.

disruptions in our supply chain including, without limitation, a decrease in transportation capacity for overseas shipments;

.

damage or interruption to our information systems;

.

changes in the competitive environment in our industry and the markets where we operate;

.

natural disasters, unusually adverse weather conditions, pandemic outbreaks, boycotts, war and geo-political events;

.

the incurrence of material uninsured losses, excessive insurance costs, or accident costs;

.

our failure to protect our brand name;

.

our loss of key personnel or our inability to hire additional qualified personnel;

.

interest rate and currency exchange fluctuations;

.

our failure to maintain effective internal controls;

.

changes to income tax expense due to changes in or interpretation of tax laws, or as a result of federal or state income tax examinations;

.

changes to or new accounting guidance, such as changes to lease accounting guidance or a requirement to convert to international financial reporting standards;

.

factors disclosed under **Risk Factors** in Part I, Item 1A of our Form 10-K for the fiscal year ended January 29, 2010;

.

factors disclosed elsewhere in this document (including, without limitation, in conjunction with the forward-looking statements themselves and under the heading **Critical Accounting Policies and Estimates** ) and other factors.

All written and oral forward-looking statements are expressly qualified in their entirety by these and other cautionary statements that we make from time to time in our other SEC filings and public communications. You should evaluate forward-looking statements in the context of these risks and uncertainties. These factors may not contain all of the material factors that are important to you. We cannot assure you that we will realize the results or developments we anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect.

The forward-looking statements included in this report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, both on behalf of the Registrant and in his capacity as principal financial and accounting officer of the Registrant.

DOLLAR GENERAL CORPORATION

Date: June 8, 2010

By:

/s/ David M. Tehle

David M. Tehle

Executive Vice President and Chief Financial Officer



**EXHIBIT INDEX**

4.1

Fourth Supplemental Indenture to the Senior Indenture, dated as of March 25, 2010, between the Guaranteeing Subsidiaries referenced therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.18 to Dollar General Corporation's Registration Statement on Form S-3 filed with the SEC on March 31, 2010 (file number 333-165799))

4.2

Fourth Supplemental Indenture to the Senior Subordinated Indenture, dated as of March 25, 2010, between the Guaranteeing Subsidiaries referenced therein and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.25 to Dollar General Corporation's Registration Statement on Form S-3 filed with the SEC on March 31, 2010 (file number 333-165799))

4.3

Supplement No. 4, dated as of March 25, 2010, to the Guarantee to the Credit Agreement, between the New Guarantors referenced therein and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.33 to Dollar General Corporation's Registration Statement on Form S-3 filed with the SEC on March 31, 2010 (file number 333-165799))

4.4

Supplement No. 4, dated as of March 25, 2010, to the Security Agreement, between the New Grantors referenced therein and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.38 to Dollar General Corporation's Registration Statement on Form S-3 filed with the SEC on March 31, 2010 (file number 333-165799))

4.5

Supplement No. 4, dated as of March 25, 2010, to the Pledge Agreement, between the Additional Pledgors referenced therein and Citicorp North America, Inc., as Collateral Agent and Citicorp North America, Inc., as Collateral Agent (incorporated by reference to Exhibit 4.43 to Dollar General Corporation's Registration Statement on Form S-3 filed with the SEC on March 31, 2010 (file number 333-165799))

4.6

Supplement No. 3, dated as of March 30, 2010, to the Guarantee to the ABL Credit Agreement, between the New Guarantors referenced therein and Wells Fargo Retail Finance, LLC, as ABL Collateral Agent (incorporated by reference to Exhibit 4.49 to Dollar General Corporation's Registration Statement on Form S-3 filed with the SEC on March 31, 2010 (file number 333-165799))

4.7

Supplement No. 4, dated as of March 30, 2010, to the ABL Security Agreement, between the New Grantors referenced therein and Wells Fargo Retail Finance, LLC, as ABL Collateral Agent (incorporated by reference to Exhibit 4.54 to Dollar General Corporation's Registration Statement on Form S-3 filed with the SEC on March 31, 2010 (file number 333-165799))

10.1

Amended and Restated Employment Agreement effective April 23, 2010, by and between Dollar General Corporation and Richard Dreiling (incorporated by reference to Exhibit 99.1 to Dollar General Corporation's Current Report on Form 8-K dated April 23, 2010, filed with the SEC on April 27, 2010 (file number 001-11421))

10.2

Stock Option Agreement dated April 23, 2010, by and between Dollar General Corporation and Richard Dreiling (incorporated by reference to Exhibit 99.2 to Dollar General Corporation's Current Report on Form 8-K dated April 23, 2010, filed with the SEC on April 27, 2010 (file number 001-11421))

10.3

Dollar General Corporation 2010 Teamshare Bonus Program for Named Executive Officers

10.4

Second Amendment to Management Stockholder's Agreements, effective June 3, 2010

15

Letter re unaudited interim financial information

31

Certifications of CEO and CFO under Exchange Act Rule 13a-14(a)

32

Certifications of CEO and CFO under 18 U.S.C. 1350

47