

DOLLAR GENERAL CORP
Form 10-Q
August 30, 2011

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 July 29, 2011

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)

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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 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

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

The registrant had 341,532,297 shares of common stock outstanding on August 26, 2011.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	July 29, 2011 (Unaudited)	January 28, 2011 (see Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 113,050	\$ 497,446
Merchandise inventories	1,973,863	1,765,433
Income taxes receivable	43,435	
Prepaid expenses and other current assets	142,433	104,946
Total current assets	2,272,781	2,367,825
Net property and equipment	1,622,991	1,524,575
Goodwill	4,338,589	4,338,589
Intangible assets, net	1,245,773	1,256,922
Other assets, net	48,969	58,311
Total assets	\$ 9,529,103	\$ 9,546,222
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	\$ 963	\$ 1,157
Accounts payable	1,122,949	953,641
Accrued expenses and other	366,623	347,741
Income taxes payable	810	25,980
Deferred income taxes	35,606	36,854
Total current liabilities	1,526,951	1,365,373
Long-term obligations	2,779,408	3,287,070
Deferred income taxes	624,034	598,565
Other liabilities	215,875	231,582
Commitments and contingencies		
Redeemable common stock	9,271	9,153
Shareholders' equity:		
Preferred stock		
Common stock	298,842	298,819
Additional paid-in capital	2,951,761	2,945,024
Retained earnings	1,133,943	830,932
Accumulated other comprehensive loss	(10,982)	(20,296)
Total shareholders' equity	4,373,564	4,054,479
Total liabilities and shareholders' equity	\$ 9,529,103	\$ 9,546,222

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	For the 13 weeks ended		For the 26 weeks ended	
	July 29, 2011	July 30, 2010	July 29, 2011	July 30, 2010
Net sales	\$ 3,575,194	\$ 3,214,155	\$ 7,026,891	\$ 6,325,469
Cost of goods sold	2,426,852	2,178,176	4,791,152	4,289,734
Gross profit	1,148,342	1,035,979	2,235,739	2,035,735
Selling, general and administrative expenses	798,313	735,222	1,564,092	1,444,255
Operating profit	350,029	300,757	671,647	591,480
Interest income	(26)	(32)	(45)	(38)
Interest expense	60,653	69,330	126,244	141,348
Other (income) expense	58,239	6,526	60,511	6,671
Income before income taxes	231,163	224,933	484,937	443,499
Income tax expense	85,121	83,738	181,926	166,308
Net income	\$ 146,042	\$ 141,195	\$ 303,011	\$ 277,191
Earnings per share:				
Basic	\$ 0.43	\$ 0.41	\$ 0.89	\$ 0.81
Diluted	\$ 0.42	\$ 0.41	\$ 0.88	\$ 0.80
Weighted average shares outstanding:				
Basic	341,534	341,001	341,528	340,910
Diluted	345,625	344,746	345,509	344,572

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	For the 26 weeks ended	
	July 29, 2011	July 30, 2010
<i>Cash flows from operating activities:</i>		
Net income	\$ 303,011	\$ 277,191
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	135,871	126,156
Deferred income taxes	18,136	(4,860)
Tax benefit of stock options	(450)	(5,387)
Loss on debt retirement, net	60,303	6,387
Non-cash share-based compensation	6,798	8,366
Other non-cash gains and losses	17,709	6,466
Change in operating assets and liabilities:		
Merchandise inventories	(222,669)	(219,589)
Prepaid expenses and other current assets	(37,136)	(15,822)
Accounts payable	166,690	113,976
Accrued expenses and other	18,399	(35,836)
Income taxes	(68,155)	23,269
Other	(68)	(1,011)
Net cash provided by operating activities	398,439	279,306
<i>Cash flows from investing activities:</i>		
Purchases of property and equipment	(218,123)	(163,058)
Proceeds from sale of property and equipment	473	544
Net cash used in investing activities	(217,650)	(162,514)
<i>Cash flows from financing activities:</i>		
Issuance of common stock	177	401
Repayments of long-term obligations	(911,361)	(58,137)
Borrowings under revolving credit agreement	371,600	
Repayments of borrowings under revolving credit agreement	(25,600)	
Repurchases of common stock and settlement of equity awards, net of employee taxes paid	(451)	(5,098)
Tax benefit of stock options	450	5,387
Net cash used in financing activities	(565,185)	(57,447)
Net increase (decrease) in cash and cash equivalents	(384,396)	59,345
Cash and cash equivalents, beginning of period	497,446	222,076
Cash and cash equivalents, end of period	\$ 113,050	\$ 281,421
<i>Supplemental schedule of non-cash investing and financing activities:</i>		
Purchases of property and equipment awaiting processing for payment, included in Accounts payable	\$ 32,276	\$ 27,206

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, including the condensed consolidated balance sheet as of January 28, 2011, which has been derived from the audited consolidated financial statements at that date. 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 28, 2011 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 2011 fiscal year will be a 53-week accounting period that will end on February 3, 2012 and the 2010 fiscal year was a 52-week accounting period that ended on January 28, 2011.

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 July 29, 2011 and results of operations for the 13-week and 26-week accounting periods ended July 29, 2011 and July 30, 2010 have been made.

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 a LIFO provision of \$10.7 million and \$0.7 million in the respective 13-week periods, and \$14.2 million and \$0.7 million in the respective 26-week periods, ended July 29, 2011 and July 30, 2010. 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.

On June 16, 2011, the FASB issued an accounting standards update which revises the manner in which entities present comprehensive income in their financial statements. The new standard removes the presentation options in current guidance and requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or separate but consecutive statements. The new standard does not change the items that must be reported in other comprehensive income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is in the process of evaluating the effect of this standard on its consolidated financial statements.

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

2. Comprehensive income

Comprehensive income consists of the following:

(in thousands)	13 Weeks Ended		26 Weeks Ended	
	July 29, 2011	July 30, 2010	July 29, 2011	July 30, 2010
Net income	\$ 146,042	\$ 141,195	\$ 303,011	\$ 277,191
Unrealized net gain on hedged transactions, net of income tax expense of \$2,973, \$66, \$5,989, and \$3,467, respectively (see Note 7)	4,614	104	9,314	4,500
Comprehensive income	\$ 150,656	\$ 141,299	\$ 312,325	\$ 281,691

3. Earnings per share

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

	13 Weeks Ended July 29, 2011			13 Weeks Ended July 30, 2010		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	\$ 146,042	341,534	\$ 0.43	\$ 141,195	341,001	\$ 0.41
Effect of dilutive share-based awards		4,091			3,745	
Diluted earnings per share	\$ 146,042	345,625	\$ 0.42	\$ 141,195	344,746	\$ 0.41

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	26 Weeks Ended July 29, 2011			26 Weeks Ended July 30, 2010		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic earnings per share	\$ 303,011	341,528	\$ 0.89	\$ 277,191	340,910	\$ 0.81
Effect of dilutive share-based awards		3,981			3,662	
Diluted earnings per share	\$ 303,011	345,509	\$ 0.88	\$ 277,191	344,572	\$ 0.80

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is 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 0.4 million in the periods ended July 29, 2011 and July 30, 2010, 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 2006, 2007, and 2008. The 2005 and earlier years are not open for examination. The 2009 and 2010 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 2007 and later remain open for examination by the various state taxing authorities.

As of July 29, 2011, the total reserves for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were \$26.5 million, \$2.4 million and \$0.5 million, respectively, for a total of \$29.4 million. Of this amount, \$0.2 million and \$27.9 million are reflected in current liabilities as Accrued expenses and other and in noncurrent Other liabilities, respectively, in the condensed consolidated balance sheet with the remaining \$1.3 million reducing deferred tax assets related to net operating loss carry forwards.

The Company believes it is reasonably possible that the reserve for uncertain tax positions may be reduced by approximately \$1.4 million in the coming twelve months principally as a result of the settlement of currently ongoing income tax examinations. The reasonably possible change of \$1.4 million is included in current liabilities in Accrued expenses and other in the amount of \$0.2 million and in noncurrent Other liabilities in the amount of \$1.2 million in the condensed consolidated balance sheet as of July 29, 2011. Also, as of July 29, 2011, approximately \$26.5 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.

The effective income tax rate for the respective 13-week and 26-week periods ended July 29, 2011 were 36.8% and 37.5%, compared to rates of 37.2% and 37.5% for the respective 13-week and 26-week periods ended July 30, 2010, a net decrease of 0.4% for the 13-week period and unchanged for the 26-week period.

5. Current and long-term obligations

On July 15, 2011, the Company redeemed all \$839.3 million outstanding aggregate principal amount of its 10.625% Senior Notes due 2015 (the Senior Notes) at a redemption price of 105.313% of the principal amount, plus accrued and unpaid interest. The redemption was effected in accordance with the indenture governing the Senior Notes pursuant to a notice dated May 31, 2011. The pretax loss on this transaction of \$58.1 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 13-week and 26-week periods ended July 29, 2011. The Company funded the redemption price for the Senior Notes with cash on hand and borrowings under its senior secured asset-based revolving credit facility (the ABL Facility), which had a balance of \$346.0 million at July 29, 2011.

On April 29, 2011, the Company repurchased in the open market \$25.0 million aggregate principal amount of Senior Notes at a price of 107.0% plus accrued and unpaid interest. The pretax loss on this transaction of \$2.2 million is reflected in Other (income) expense in the Company's condensed consolidated statement of income for the 26-week period ended July 29, 2011.

6. 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 July 29, 2011, 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 classified its derivative valuations, as discussed in detail in Note 7, 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 July 29, 2011.

(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 July 29, 2011
Assets:				
Trading securities (a)	\$ 7,170	\$	\$	\$ 7,170
Liabilities:				
Long-term obligations (b)	2,818,714	20,174		2,838,888
Derivative financial instruments (c)		20,092		20,092
Deferred compensation (d)	18,700			18,700

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- (a) Reflected at fair value in the condensed consolidated balance sheet as Prepaid expenses and other current assets of \$1,738 and Other assets, net of \$5,432.
 - (b) Reflected at book value in the condensed consolidated balance sheet as Current portion of long-term obligations of \$963 and Long-term obligations of \$2,779,408.
 - (c) Reflected in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of \$11,156 and non-current Other liabilities of \$8,936.
 - (d) Reflected at fair value in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of \$1,738 and non-current Other liabilities of \$16,962.

7. 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 and 26-week periods ended July 29, 2011 and July 30, 2010, 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 July 29, 2011, the Company had three interest rate swaps with a combined notional value of \$686.7 million 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 \$15.4 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 July 29, 2011, and July 30, 2010, the Company had no such non-designated hedges.

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 July 29, 2011 and January 28, 2011 (in thousands):

(in thousands)	July 29, 2011	January 28, 2011
Derivatives Designated as Hedging Instruments		
Interest rate swaps classified in current liabilities as Accrued expenses and other	\$ 11,156	\$
Interest rate swaps classified in noncurrent liabilities as Other liabilities	\$ 8,936	\$ 34,923

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 and 26-week periods ended July 29, 2011 and July 30, 2010 (in thousands):

(in thousands)	13 Weeks Ended		26 Weeks Ended	
	July 29, 2011	July 30, 2010	July 29, 2011	July 30, 2010
Derivatives in Cash Flow Hedging Relationships				
Loss related to effective portion of derivative recognized in OCI	\$ 1,235	\$ 10,893	\$ 2,838	\$ 15,436
Loss related to effective portion of derivative reclassified from Accumulated OCI to Interest expense	\$ 8,821	\$ 11,063	\$ 18,141	\$ 23,403
Loss related to ineffective portion of derivative recognized in Other (income) expense	\$ 103	\$ 140	\$ 208	\$ 285

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.

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As of July 29, 2011, 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 \$20.5 million. If the Company had breached any of these provisions at July 29,

2011, it could have been required to post full collateral or settle its obligations under the agreements at an estimated termination value of \$20.5 million. As of July 29, 2011, the Company had not breached any of these provisions or posted any collateral related to these agreements.

8. 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. In May 2011, the court entered an amended scheduling order that governs, among other things, deadlines for fact discovery (November 30, 2011) and the filing of the Company's anticipated decertification motion (October 14, 2011) and any potentially dispositive motions (December 16, 2011). The court's scheduling order establishes a trial date of May 21, 2012. The Company does not anticipate a ruling on its decertification motion before January 2012.

The Company believes that its store managers are and have been properly classified as exempt employees under the FLSA and that the *Richter* action is not appropriate for collective action treatment. The Company has obtained summary judgment in some, although not all, of its pending individual or single-plaintiff store manager exemption cases in which it has filed such a motion.

The Company is vigorously defending the *Richter* matter. However, at this time, it is not possible to predict whether *Richter* ultimately will be permitted to proceed collectively, and no assurances can be given that the Company will be successful in its defense of the action on the merits or otherwise. Similarly, at this time the Company cannot estimate either the size of any potential class or the value of the claims asserted in *Richter*. For these reasons, the Company is unable to estimate any potential loss or range of loss in the matter; however, if the Company is not successful in its defense efforts, the resolution of *Richter* 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. On February 22, 2011, the court denied the plaintiffs class certification motion in its entirety and ordered that the matter proceed only as to the named plaintiffs. On March 22, 2011, the plaintiffs moved the court for reconsideration of its Order denying their class certification motion. On March 30, 2011, the plaintiffs' reconsideration motion was denied, and the plaintiffs did not appeal that ruling. The case will proceed now only as to the named plaintiffs, and the Company does not expect the outcome to be material to its 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) (now captioned, *Wanda Womack, et al. v. Dolgencorp, Inc.*, Case No. 2:06-cv-00465-VEH). 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 attorneys 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. Briefing has closed, and the motion remains pending. The Company's motion to decertify the Equal Pay Act class was denied as premature. If the case proceeds, the Company expects to file a similar motion in due course.

The parties agreed to mediate this action, and the court stayed the action pending the results of the mediation. The mediation occurred in March and April, 2011, and the Company has reached an agreement in principle to settle the matter on behalf of the entire putative class. The proposed settlement, which still must be submitted to and approved by the court, provides for both monetary and equitable relief. Under the proposed terms, the Company will pay \$15.5 million into a fund for the class members that will be apportioned and paid out to individual members (less any additional attorneys' fees or litigation costs approved by the court), upon submission of a valid claim. It will pay an additional \$3.25 million for plaintiffs' legal fees and costs. Of the total \$18.75 million anticipated payment, the Company expects to receive reimbursement from its Employment Practices Liability Insurance (EPLI) carrier of approximately \$15.9 million, which represents the balance remaining of the \$20 million EPLI policy covering the claims. In addition, the Company has agreed to make certain adjustments to its pay setting policies and procedures for new store managers. If the settlement is approved, the

Company expects to implement the new pay policies and practices no later than April 2012. At this time, the Company expects the proposed settlement to be filed with the court by the end of September, 2011 and anticipates the court's ruling sometime during the fall of 2011. Because it deemed settlement probable and estimable, the Company accrued for the net settlement as well as for certain additional anticipated fees related thereto during the 13-week period ended April 29, 2011, and concurrently recorded a receivable of approximately \$15.9 million from its EPLI carrier.

At this time, although probable it is not certain that the court will approve the settlement. If it does not, and the case proceeds, it is not possible at this time to predict whether the court ultimately will permit the action to proceed collectively under the Equal Pay Act or as a class under Title VII. Although the Company intends to vigorously defend the action, no assurances can be given that it would be successful in the defense on the merits or otherwise. At this stage in the proceedings, the Company cannot estimate either the size of any potential class or the value of the claims raised in this action if it proceeds. For these reasons, the Company is unable to estimate any potential loss or range of loss in such a scenario; however, if the Company is not successful in defending this action, its resolution could have a material adverse effect on the Company's financial statements as a whole.

On June 16, 2010, a lawsuit entitled *Shaleka Gross, et al v. Dollar General Corporation* was filed in the United States District Court for the Southern District of Mississippi (Civil Action No. 3:10CV340WHB-LR) (*Gross*) in which three former non-exempt store employees, on behalf of themselves and certain other non-exempt Dollar General store employees, alleged that they were not paid for all hours worked in violation of the FLSA. Specifically, plaintiffs alleged that they were not properly paid for certain breaks and sought back wages (including overtime wages), liquidated damages and attorneys' fees and costs.

Before the Company was served with the *Gross* complaint, the plaintiffs dismissed the action and re-filed it in the United States District Court for the Northern District of Mississippi, now captioned as *Cynthia Walker, et al. v. Dollar General Corporation, et al.* (Civil Action No. 4:10-CV119-P-S) (*Walker*). The *Walker* complaint was filed on September 16, 2010, and although it added approximately eight additional plaintiffs, it added no substantive allegations beyond those alleged in the *Gross* complaint. The Company filed a motion to transfer the case back to the Southern District of Mississippi along with a motion to dismiss for lack of personal jurisdiction over two corporate defendants and for failure to state a claim as to Dollar General Corporation. The motion to transfer remains pending, but the plaintiffs agreed to dismiss their claims against Dollar General Corporation and Dolgencorp of Texas, Inc., another corporate defendant, and to dismiss two of the eight named plaintiffs. To date, no other individuals have opted into the *Walker* matter, and the plaintiffs have not asked the court to certify any class.

On August 2, 2011, the court entered a scheduling order that governs, among other things, the deadlines for certification-related discovery (January 31, 2012) and the filing of any motion for conditional certification by the plaintiffs (March 2, 2012). The Company's response to any conditional certification motion must be filed within 30 days of such motion, or by March 2, 2012, whichever is later.

At this time, it is not possible to predict whether the court will permit the *Walker* action to proceed collectively. The Company does not believe that *Walker* is appropriate for collective treatment and believes that its wage and hour policies and practices comply with both federal and state law. Although the Company plans to vigorously defend *Walker*, no assurances can be given that the Company will be successful in the defense on the merits or otherwise. Similarly, at this time the Company cannot estimate either the size of any potential class or the value of the claims raised. For these reasons, the Company is unable to estimate any potential loss or range of loss; however if the Company is not successful in its defense efforts, the resolution of this action could have a material adverse effect on the Company's financial statements as a whole.

On August 26, 2010, a lawsuit containing allegations substantially similar to those raised in the *Walker* matter was filed by a single plaintiff in the United States District Court for the Eastern District of Kentucky (*Brenda McCown v. Dollar General Corporation*, Case No. 210-297 (WOB)). On May 11, 2011, the Company agreed to resolve the matter for an amount that is not material to its financial statements as a whole.

On May 20, 2011, a lawsuit entitled *Winn-Dixie Stores, Inc., et al. v. Dolgencorp, LLC* was filed in the United States District Court for the Southern District of Florida (Case No. 9:11-cv-80601-DMM) (*Winn-Dixie*) in which the plaintiffs allege that the sale of food and other items in approximately 90 of the Company's stores, each of which allegedly is or was at some time co-located in a shopping center with one of plaintiffs stores, violates restrictive covenants that plaintiffs contend are binding on the occupants of the shopping centers. Plaintiffs seek damages and an injunction limiting the sale of food and other items in those stores. The Company intends to vigorously defend the *Winn-Dixie* matter. However, at this time, no assurances can be given that the Company will be successful in its defense of the action on the merits or otherwise. Similarly, at this time, because of differences among the leases and the stores involved and certain outstanding threshold issues that will have to be addressed by the court, the Company is unable reasonably to estimate potential losses; however, if the Company is not successful in defending the *Winn-Dixie* matter, the outcome could have a material adverse effect on the Company's financial statements as a whole.

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 plus interest, claiming that the valuation used to calculate the \$7.6 million was commercially unreasonable, and seeking to invoke the alternative dispute resolution procedures established by the bankruptcy court. The Company participated in the alternative dispute resolution procedures as it believed a reasonable settlement would be in the best interest of the Company to avoid the substantial risk and costs of litigation. In April of 2011, the Company reached a settlement with the counterparty under which the Company paid an additional \$9.85 million in exchange for a full release. The Company accrued the settlement amount along with additional expected fees and costs related thereto in the 13-week period ended April 29, 2011. The settlement was finalized and the payment was made in May 2011.

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.

9. Segment reporting

The Company manages its business on the basis of one reportable segment. As of July 29, 2011, 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.

(In thousands)	13 Weeks Ended		26 Weeks Ended	
	July 29, 2011	July 30, 2010	July 29, 2011	July 30, 2010
Classes of similar products:				
Consumables	\$ 2,611,070	\$ 2,297,374	\$ 5,140,140	\$ 4,528,874
Seasonal	502,569	471,185	959,626	901,236
Home products	235,803	222,459	470,011	447,326
Apparel	225,752	223,137	457,114	448,033
Net sales	\$ 3,575,194	\$ 3,214,155	\$ 7,026,891	\$ 6,325,469

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 a principal balance as of July 29, 2011 of approximately \$1.96 billion. The Company paid approximately \$36.8 million and \$30.1 million of interest on the Term Loan Facility during the 26-week periods ended July 29, 2011 and July 30, 2010, respectively.

Goldman, Sachs & Co. is a counterparty to an amortizing interest rate swap with a \$143.3 million notional amount as of July 29, 2011, entered into in connection with the Term Loan Facility. The Company paid Goldman, Sachs & Co. approximately \$10.6 million and \$9.1

million in the 26-week periods ended July 29, 2011 and July 30, 2010, respectively, pursuant to this swap.

Affiliates of KKR and Goldman, Sachs & Co. served as underwriters 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. Certain members of the Company's management exercised registration rights in connection with such offering.

11. 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.

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July 29, 2011

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET:					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 55,434	\$ 36,613	\$ 21,003	\$	\$ 113,050
Merchandise inventories		1,973,863			1,973,863
Income taxes receivable	64,469	4,700		(25,734)	43,435
Deferred income taxes	9,426		14,067	(23,493)	
Prepaid expenses and other current assets	846,397	4,574,666	4,312	(5,282,942)	142,433
Total current assets	975,726	6,589,842	39,382	(5,332,169)	2,272,781
Net property and equipment	108,515	1,514,223	253		1,622,991
Goodwill	4,338,589				4,338,589
Intangible assets, net	1,199,200	46,573			1,245,773
Deferred income taxes			49,442	(49,442)	
Other assets, net	5,894,512	13,071	320,935	(6,179,549)	48,969
Total assets	\$ 12,516,542	\$ 8,163,709	\$ 410,012	\$ (11,561,160)	\$ 9,529,103
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term obligations					
	\$	\$ 963	\$	\$	\$ 963
Accounts payable	4,555,164	1,791,240	50,718	(5,274,173)	1,122,949
Accrued expenses and other	63,129	251,049	61,214	(8,769)	366,623
Income taxes payable			26,544	(25,734)	810
Deferred income taxes		59,099		(23,493)	35,606
Total current liabilities	4,618,293	2,102,351	138,476	(5,332,169)	1,526,951
Long-term obligations	3,040,467	3,162,953		(3,424,012)	2,779,408
Deferred income taxes	429,986	243,490		(49,442)	624,034
Other liabilities	44,961	29,473	141,441		215,875
Redeemable common stock	9,271				9,271
Shareholders' equity:					
Preferred stock					
Common stock	298,842	23,855	100	(23,955)	298,842
Additional paid-in capital	2,951,761	431,253	19,900	(451,153)	2,951,761
Retained earnings	1,133,943	2,170,334	110,095	(2,280,429)	1,133,943
Accumulated other comprehensive loss	(10,982)				(10,982)
Total shareholders' equity	4,373,564	2,625,442	130,095	(2,755,537)	4,373,564
Total liabilities and shareholders' equity	\$ 12,516,542	\$ 8,163,709	\$ 410,012	\$ (11,561,160)	\$ 9,529,103

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January 28, 2011

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
BALANCE SHEET:					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 111,545	\$ 364,404	\$ 21,497	\$	\$ 497,446
Merchandise inventories		1,765,433			1,765,433
Income taxes receivable	13,529			(13,529)	
Deferred income taxes	8,877		6,825	(15,702)	
Prepaid expenses and other current assets	741,352	3,698,117	4,454	(4,338,977)	104,946
Total current assets	875,303	5,827,954	32,776	(4,368,208)	2,367,825
Net property and equipment	105,155	1,419,133	287		1,524,575
Goodwill	4,338,589				4,338,589
Intangible assets, net	1,199,200	57,722			1,256,922
Deferred income taxes			47,690	(47,690)	
Other assets, net	5,337,522	12,675	304,285	(5,596,171)	58,311
Total assets	\$ 11,855,769	\$ 7,317,484	\$ 385,038	\$ (10,012,069)	\$ 9,546,222
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term obligations					
	\$	\$ 1,157	\$	\$	\$ 1,157
Accounts payable	3,691,564	1,541,593	50,824	(4,330,340)	953,641
Accrued expenses and other	68,398	226,225	61,755	(8,637)	347,741
Income taxes payable	11,922	13,246	14,341	(13,529)	25,980
Deferred income taxes		52,556		(15,702)	36,854
Total current liabilities	3,771,884	1,834,777	126,920	(4,368,208)	1,365,373
Long-term obligations	3,534,447	3,000,877		(3,248,254)	3,287,070
Deferred income taxes	417,874	228,381		(47,690)	598,565
Other liabilities	67,932	27,250	136,400		231,582
Redeemable common stock	9,153				9,153
Shareholders' equity:					
Preferred stock					
Common stock	298,819	23,855	100	(23,955)	298,819
Additional paid-in capital	2,945,024	431,253	19,900	(451,153)	2,945,024
Retained earnings	830,932	1,771,091	101,718	(1,872,809)	830,932
Accumulated other comprehensive loss	(20,296)				(20,296)
Total shareholders' equity	4,054,479	2,226,199	121,718	(2,347,917)	4,054,479
Total liabilities and shareholders' equity	\$ 11,855,769	\$ 7,317,484	\$ 385,038	\$ (10,012,069)	\$ 9,546,222

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For the 13-weeks ended July 29, 2011

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:					
Net sales	\$ 74,404	\$ 3,575,194	\$ 22,581	\$ (96,985)	\$ 3,575,194
Cost of goods sold		2,426,852			2,426,852
Gross profit	74,404	1,148,342	22,581	(96,985)	1,148,342
Selling, general and administrative expenses	67,640	805,790	21,868	(96,985)	798,313
Operating profit	6,764	342,552	713		350,029
Interest income	(11,688)	(6,115)	(5,266)	23,043	(26)
Interest expense	69,292	14,396	8	(23,043)	60,653
Other (income) expense	58,239				58,239
Income (loss) before income taxes	(109,079)	334,271	5,971		231,163
Income tax expense (benefit)	(40,666)	124,341	1,446		85,121
Equity in subsidiaries earnings, net of taxes	214,455			(214,455)	
Net income	\$ 146,042	\$ 209,930	\$ 4,525	\$ (214,455)	\$ 146,042

For the 13 weeks ended July 30, 2010

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:					
Net sales	\$ 73,122	\$ 3,214,155	\$ 21,943	\$ (95,065)	\$ 3,214,155
Cost of goods sold		2,178,176			2,178,176
Gross profit	73,122	1,035,979	21,943	(95,065)	1,035,979
Selling, general and administrative expenses	66,453	744,212	19,622	(95,065)	735,222
Operating profit	6,669	291,767	2,321		300,757
Interest income	(10,390)	(3,219)	(4,954)	18,531	(32)
Interest expense	77,852	10,003	6	(18,531)	69,330
Other (income) expense	6,526				6,526
Income (loss) before income taxes	(67,319)	284,983	7,269		224,933
Income tax expense (benefit)	(24,106)	105,772	2,072		83,738
Equity in subsidiaries earnings, net of taxes	184,408			(184,408)	
Net income	\$ 141,195	\$ 179,211	\$ 5,197	\$ (184,408)	\$ 141,195

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For the 26-weeks ended July 29, 2011

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:					
Net sales	\$ 161,921	\$ 7,026,891	\$ 41,395	\$ (203,316)	\$ 7,026,891
Cost of goods sold		4,791,152			4,791,152
Gross profit	161,921	2,235,739	41,395	(203,316)	2,235,739
Selling, general and administrative expenses	147,201	1,580,358	39,849	(203,316)	1,564,092
Operating profit	14,720	655,381	1,546		671,647
Interest income	(24,110)	(10,096)	(10,494)	44,655	(45)
Interest expense	144,038	26,847	14	(44,655)	126,244
Other (income) expense	60,511				60,511
Income (loss) before income taxes	(165,719)	638,630	12,026		484,937
Income tax expense (benefit)	(61,110)	239,387	3,649		181,926
Equity in subsidiaries earnings, net of taxes	407,620			(407,620)	
Net income	\$ 303,011	\$ 399,243	\$ 8,377	\$ (407,620)	\$ 303,011

For the 26-weeks ended July 30, 2010

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF INCOME:					
Net sales	\$ 160,586	\$ 6,325,469	\$ 41,591	\$ (202,177)	\$ 6,325,469
Cost of goods sold		4,289,734			4,289,734
Gross profit	160,586	2,035,735	41,591	(202,177)	2,035,735
Selling, general and administrative expenses	146,072	1,466,075	34,285	(202,177)	1,444,255
Operating profit	14,514	569,660	7,306		591,480
Interest income	(21,407)	(5,929)	(9,907)	37,205	(38)
Interest expense	157,309	21,233	11	(37,205)	141,348
Other (income) expense	6,671				6,671
Income (loss) before income taxes	(128,059)	554,356	17,202		443,499
Income tax expense (benefit)	(46,909)	207,682	5,535		166,308
Equity in subsidiaries earnings, net of taxes	358,341			(358,341)	
Net income	\$ 277,191	\$ 346,674	\$ 11,667	\$ (358,341)	\$ 277,191

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For the 26 weeks ended July 29, 2011

	DOLLAR GENERAL CORPORATION	GUARANTOR SUBSIDIARIES	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED TOTAL
STATEMENTS OF CASH FLOWS:					
<i>Cash flows from operating activities:</i>					
Net income	\$ 303,011	\$ 399,243	\$ 8,377	\$ (407,620)	\$ 303,011
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	16,238	119,568	65		135,871
Deferred income taxes	5,478	21,652	(8,994)		18,136
Tax benefit of stock options	(450)				(450)
Loss on debt retirement, net	60,303				60,303
Non-cash share-based compensation	6,798				6,798
Other non-cash gains and losses	452	17,257			17,709
Equity in subsidiaries earnings, net	(407,620)			407,620	
Change in operating assets and liabilities:					
Merchandise inventories		(222,669)			(222,669)
Prepaid expenses and other current assets	(14,841)	(22,654)	359		(37,136)
Accounts payable	8,232	158,565	(107)		166,690
Accrued expenses and other	(13,540)	27,439	4,500		18,399
Income taxes	(62,412)	(17,946)	12,203		(68,155)
Other	1,355	(1,425)	2		(68)
Net cash provided by (used in) operating activities	(96,996)	479,030	16,405		398,439
<i>Cash flows from investing activities:</i>					
Purchases of property and equipment	(14,330)	(203,762)	(31)		(218,123)
Proceeds from sale of property and equipment	12	461			473
Net cash used in investing activities	(14,318)	(203,301)	(31)		(217,650)
<i>Cash flows from financing activities:</i>					
Issuance of common stock	177				177
Repayments of long-term obligations	(910,677)	(684)			(911,361)
Borrowings under revolving credit agreement	371,600				371,600
Repayments of borrowings under revolving credit agreement	(25,600)				(25,600)
Repurchases of common stock and settlement of equity awards, net of employee taxes paid	(451)				(451)
Tax benefit of stock options	450				450
	619,704	(602,836)	(16,868)		

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Changes in intercompany note balances, net							
Net cash provided by (used in) financing activities	55,203	(603,520)	(16,868)	(565,185)			
Net decrease in cash and cash equivalents	(56,111)	(327,791)	(494)	(384,396)			
Cash and cash equivalents, beginning of period	111,545	364,404	21,497	497,446			
Cash and cash equivalents, end of period	\$ 55,434	\$ 36,613	\$ 21,003	\$ 113,050			

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For the 26 weeks ended July 30, 2010

	DOLLAR		GUARANTOR		OTHER		ELIMINATIONS		CONSOLIDATED
	GENERAL		SUBSIDIARIES		SUBSIDIARIES				TOTAL
	CORPORATION								
STATEMENTS OF CASH FLOWS:									
<i>Cash flows from operating activities:</i>									
Net income	\$	277,191	\$	346,674	\$	11,667	\$	(358,341)	\$ 277,191
Adjustments to reconcile net income to net cash provided by (used in) operating activities:									
Depreciation and amortization		16,924		109,210		22			126,156
Deferred income taxes		6,952		(4,214)		(7,598)			(4,860)
Tax benefit of stock options		(5,387)							(5,387)
Loss on debt retirement, net		6,387							6,387
Non-cash share-based compensation		8,366							8,366
Other non-cash gains and losses		652		5,814					6,466
Equity in subsidiaries earnings, net		(358,341)					358,341		
Change in operating assets and liabilities:									
Merchandise inventories				(219,589)					(219,589)
Prepaid expenses and other current assets		3,347		(18,724)		(445)			(15,822)
Accounts payable		(8,226)		122,214		(12)			113,976
Accrued expenses and other		(30,484)		(5,503)		151			(35,836)
Income taxes		(1,006)		8,235		16,040			23,269
Other		7		(1,018)					(1,011)
Net cash provided by (used in) operating activities		(83,618)		343,099		19,825			279,306
<i>Cash flows from investing activities:</i>									
Purchases of property and equipment		(11,222)		(151,777)		(59)			(163,058)
Proceeds from sale of property and equipment				544					544
Net cash used in investing activities		(11,222)		(151,233)		(59)			(162,514)
<i>Cash flows from financing activities:</i>									
Issuance of common stock		401							401
Repayments of long-term obligations		(57,229)		(908)					(58,137)
Repurchases of common stock and settlement of equity awards, net of employee taxes paid		(5,098)							(5,098)
Tax benefit of stock options		5,387							5,387
Changes in intercompany note balances, net		160,729		(140,398)		(20,331)			
Net cash provided by (used in) financing activities		104,190		(141,306)		(20,331)			(57,447)
		9,350		50,560		(565)			59,345

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Net increase (decrease) in cash and cash equivalents							
Cash and cash equivalents, beginning of period		97,620		103,001		21,455	222,076
Cash and cash equivalents, end of period	\$	106,970	\$	153,561	\$	20,890	\$ 281,421

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 July 29, 2011, and the related condensed consolidated statements of income for the thirteen and twenty-six week periods ended July 29, 2011 and July 30, 2010, and the condensed consolidated statements of cash flows for the twenty six-week periods ended July 29, 2011 and July 30, 2010. 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 28, 2011 and the related consolidated statements of income, shareholders equity, and cash flows for the fiscal year then ended (not presented herein) and in our report dated March 22, 2011, 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 January 28, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

August 30, 2011
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 28, 2011. 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 9,641 stores located in 35 states as of July 29, 2011, 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 three 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, continued weakness in the housing and credit markets, and the timetable for economic recovery remains 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 cautiously optimistic with regard to executing our operating priorities in 2011.

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 profit rate,
- leverage process improvements and information technology to reduce costs, and

- strengthen and expand our 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 implementing more consistent space planning; and in early 2011 we completed the final phase of our three year initiative to raise the shelf height in our stores, increasing the linear feet available to expand our merchandise offerings. In addition, we are making significant progress in defining and improving our store standards with a goal of maintaining a consistent look and feel across all stores. We evaluate our store hours on an ongoing basis and opportunistically adjust our hours for our customers' convenience. We are targeting both new and existing customers with our improved advertising circulars as well as through our website and social media. 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 625 new stores in fiscal 2011, including 301 stores opened through July 29, 2011, and to enter three additional states: Connecticut, New Hampshire and Nevada. We are currently in the process of developing our strategy and locating store sites for our planned entrance into California in 2012. Our criteria for opening new stores are based on numerous factors including, among other things, availability of appropriate sites, expected sales, lease terms, population demographics, competition, and the employment environment.

Our second priority is to increase gross profit through category management, distribution efficiencies, shrink reduction, an improved pricing model, and expansion of private brand offerings and increased foreign sourcing. Over the period from 2008 through 2010, our gross profit rate improved significantly, and we believe we have additional opportunities to improve over the long term, although at a more moderate pace. While gross profit continued to increase in the first half of 2011, we experienced some degradation in our gross profit rate and we expect to continue to experience headwinds in the near future related to sales mix and increased product costs (and the resulting effect on initial markup and LIFO). Our merchandising team has been successful in its efforts to upgrade our merchandise selection to better serve our customers while managing our everyday low price strategy. We constantly review our pricing and markdown strategies and work diligently to minimize product cost increases and to remain competitive. We believe we have the potential to directly source a larger portion of our products at savings to current costs. We offer a wide variety of national brands at competitive prices, but we are also focused on increasing sales of private brands, which generally have lower price points and higher gross profit rates than national brands, to ensure an optimal mix of product offerings. Our operations group continues to be highly focused on inventory shrink reduction initiatives, while our supply chain team continues its efforts to increase efficiencies, with the goal of leveraging transportation and distribution expenses.

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 our cost reduction initiatives include the implementation of workforce management standards, a keen focus on safety to minimize workers' compensation expense, health awareness initiatives to control healthcare costs, the installation of energy management systems in our stores as well as increased preventive maintenance, and the reduction of waste management costs through recycling of cardboard. In addition, our real estate

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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 resulted in improved performance in the second quarter of 2011 over the comparable 2010 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 11.2% to \$3.58 billion. Sales in same-stores increased 5.9% driven by increases in customer traffic and average transaction amount. Average sales per square foot for all stores over the 52-week period ended July 29, 2011 were approximately \$205, up from \$199 for the comparable prior 52-week period.
- Gross profit, as a percentage of sales, declined slightly to 32.1% compared to 32.2% in the 2010 period. Our mix of sales continued to trend toward more consumables, which have a lower gross profit rate than non-consumables and our cost of products continued to increase in the quarter, primarily due to increased commodity and fuel costs. We recorded an increase to our LIFO reserve of \$10.7 million in the 2011 second quarter compared to \$0.7 million in the 2010 second quarter. These factors were substantially offset by increased pricing and lower markdowns, inventory shrinkage and distribution center costs, as a percentage of sales.
- Inventory turnover declined to 5.1 times on a rolling four-quarter basis compared to 5.2 times for the corresponding prior year period, primarily because of the expansion of our merchandise offerings related to the completion of our initiative to raise the shelf height in our stores, along with incremental purchases within our normal inventory assortment that should mitigate a portion of anticipated cost increases.
- Selling, general and administrative expenses, or SG&A, as a percentage of sales, was 22.3% compared to 22.9% in the 2010 second quarter. SG&A as a percentage of sales declined due to our significant sales increase as well as our continued focus on cost reduction initiatives. We are realizing significant store labor savings as a result of our new workforce management initiatives.
- Operating profit, as a percentage of sales, was 9.8% compared to 9.4% in the 2010 second quarter, an improvement of 43 basis points.
- Interest expense decreased by \$8.7 million to \$60.7 million in the 2011 second quarter primarily due to lower average outstanding borrowings during the period and

lower all-in interest rates on our term loan due to reduced notional amounts on interest rate swaps. On July 15, 2011, we redeemed the remaining \$839.3 million outstanding aggregate principal amount of our 10.625% senior notes utilizing excess cash and borrowings under our revolving credit facility. The repurchase resulted in a non-operating loss in the quarter of \$58.1 million (\$35.4 million net of income taxes, or \$0.10 per diluted share). Total long-term obligations as of July 29, 2011 were \$2.78 billion, a net reduction of \$572 million from the prior year.

- Net income was \$146.0 million, or \$0.42 per diluted share, compared to net income of \$141.2 million, or \$0.41 per diluted share, in the 2010 second quarter.

In summary, in the 2011 second quarter, we were very successful in managing our business and improving profitability even as we faced the challenges of extended economic uncertainties and increases in commodity and fuel costs. We believe that our focus on providing consumers with the products they need most frequently and adhering to our everyday low price strategy has helped us earn the trust of our customers. Even as we have recently seen the need to pass through certain commodities cost increases, our customer traffic and average transaction have continued to increase, indicating that our customers are relying on us more than ever for their consumables needs. Our small format and conveniently located stores provide an attractive shopping alternative to customers seeking to save time and money.

We expect to continue to experience uncertainty with regard to product and transportation fuel costs for the remainder of the year. In addition, due to the continued economic uncertainty faced by consumers and the impact of such uncertainty on the discretionary spending of our customers, we do not expect that sales of non-consumables, as a percentage of our total sales, will increase from the 2010 fiscal year. These factors are likely to continue to pressure our gross profit rate for the second half and full year 2011.

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 2011 and 2010, which represent the 53-week fiscal year which will end on February 3, 2012 and the 52-week fiscal year which ended January 28, 2011, respectively. References to quarterly accounting periods for 2011 and 2010 contained herein refer to 13-week accounting periods, except for the fourth quarter of 2011, which will be a 14-week accounting period.

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.

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The following table contains results of operations data for the most recent 13-week and 26-week periods of each of 2011 and 2010, and the dollar and percentage variances among those periods:

(amounts in millions, except per share amounts)	13 Weeks Ended		2011 vs. 2010		26 Weeks Ended		2011 vs. 2010	
	July 29, 2011	July 30, 2010	Amount change	% change	July 29, 2011	July 30, 2010	Amount change	% change
Net sales by category:								
Consumables	\$ 2,611.1	\$ 2,297.4	\$ 313.7	13.7%	\$ 5,140.1	\$ 4,528.9	\$ 611.3	13.5%
<i>% of net sales</i>	73.03%	71.48%			73.15%	71.60%		
Seasonal	502.6	471.2	31.4	6.7	959.6	901.2	58.4	6.5
<i>% of net sales</i>	14.06%	14.66%			13.66%	14.25%		
Home products	235.8	222.5	13.3	6.0	470.0	447.3	22.7	5.1
<i>% of net sales</i>	6.60%	6.92%			6.69%	7.07%		
Apparel	225.8	223.1	2.6	1.2	457.1	448.0	9.1	2.0
<i>% of net sales</i>	6.31%	6.94%			6.51%	7.08%		
Net sales	\$ 3,575.2	\$ 3,214.2	\$ 361.0	11.2%	\$ 7,026.9	\$ 6,325.5	\$ 701.4	11.1%
Cost of goods sold	2,426.9	2,178.2	248.7	11.4	4,791.2	4,289.7	501.4	11.7
<i>% of net sales</i>	67.88%	67.77%			68.18%	67.82%		
Gross profit	1,148.3	1,036.0	112.4	10.8	2,235.7	2,035.7	200.0	9.8
<i>% of net sales</i>	32.12%	32.23%			31.82%	32.18%		
Selling, general and administrative								
expenses	798.3	735.2	63.1	8.6	1,564.1	1,444.3	119.8	8.3
<i>% of net sales</i>	22.33%	22.87%			22.26%	22.83%		
Operating profit	350.0	300.8	49.3	16.4	671.6	591.5	80.2	13.6
<i>% of net sales</i>	9.79%	9.36%			9.56%	9.35%		
Interest income	(0.0)	(0.0)	0.0	(18.8)	(0.0)	(0.0)	(0.0)	18.4
<i>% of net sales</i>	(0.00)%	(0.00)%			(0.00)%	(0.00)%		
Interest expense	60.7	69.3	(8.7)	(12.5)	126.2	141.3	(15.1)	(10.7)
<i>% of net sales</i>	1.70%	2.16%			1.80%	2.23%		
Other (income) expense	58.2	6.5	51.7	792.4	60.5	6.7	53.8	807.1
<i>% of net sales</i>	1.63%	0.20%			0.86%	0.11%		
Income before income taxes	231.2	224.9	6.2	2.8	484.9	443.5	41.4	9.3
<i>% of net sales</i>	6.47%	7.00%			6.90%	7.01%		
Income taxes	85.1	83.7	1.4	1.7	181.9	166.3	15.6	9.4
<i>% of net sales</i>	2.38%	2.61%			2.59%	2.63%		
Net income	\$ 146.0	\$ 141.2	\$ 4.8	3.4%	\$ 303.0	\$ 277.2	\$ 25.8	9.3%
<i>% of net sales</i>	4.08%	4.39%			4.31%	4.38%		
Diluted earnings per share	\$ 0.42	\$ 0.41	\$ 0.01	2.4%	\$ 0.88	\$ 0.80	\$ 0.08	10.0%

13 WEEKS ENDED JULY 29, 2011 AND JULY 30, 2010

Net Sales. The net sales increase in the 2011 second quarter reflects a same-store sales increase of 5.9% compared to the 2010 quarter. Same-stores include stores that have been open at least 13 months and remain open at the end of the reporting period. For the 2011 quarter, there were 8,938 same-stores which accounted for sales of \$3.36 billion. The remainder of the sales increase was attributable to new stores, partially offset by sales from closed stores. Consumables sales increased at a higher rate than non-consumables, with the most significant growth related to changes in and further expansion of our candy and snacks, packaged food, and perishables

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offerings. Sales growth in our home, basic apparel and seasonal categories continued to be impacted by weakness and uncertainties in the macroeconomic environment during the quarter.

Gross Profit. Our gross profit rate as a percentage of sales was 32.1% in the 2011 second quarter compared to 32.2% in the 2010 second quarter. Consumables, which generally have lower markups than non-consumables, have continued to increase as a percentage of sales. In addition, our purchase costs have increased primarily due to increased commodity and fuel costs. We recorded an increase to our LIFO reserve of \$10.7 million in the 2011 second quarter compared to \$0.7 million in the 2010 second quarter. These factors were substantially offset by increased pricing and lower markdowns, inventory shrinkage and distribution center costs, as a percentage of sales.

SG&A Expense. SG&A expense was 22.3% as a percentage of sales in the 2011 period compared to 22.9% in the 2010 period, a decrease of 54 basis points. Retail salaries increased at a rate lower than our increase in sales reflecting further progress in the phased rollout of our workforce management system. A decrease in incentive compensation contributed to the overall decrease in SG&A as a percentage of sales as did a decrease in total advertising costs driven by an increase in cooperative advertising. SG&A, as a percentage of sales, was also favorably impacted by other cost reduction and productivity initiatives as well as the 11.2% increase in sales. These improvements were partially offset by depreciation and amortization expenses, which increased at a higher rate than the increase in sales, primarily due to increased investment in store fixtures and equipment resulting from recent merchandising initiatives such as raising the height of our store shelves, as well as the purchase of stores.

Interest Expense. The decrease in interest expense in the 2011 period from the 2010 period is due to lower outstanding borrowings, resulting from our repurchases of indebtedness in 2011 and 2010 and lower all-in interest rates on our term loan primarily due to reduced notional amounts on interest rate swaps. On July 15, 2011, we redeemed the remaining \$839.3 million outstanding aggregate principal amount of our 10.625% senior notes utilizing excess cash and borrowings under our revolving credit facility.

Other (Income) Expense. Other (income) expense in the 2011 period includes a pretax loss of \$58.1 million resulting from the repurchase of our 10.625% senior notes.

Income Taxes. The effective income tax rate for the 2011 period was 36.8% compared to a rate of 37.2% for the 2010 period which represents a net decrease of 0.4%.

26 WEEKS ENDED JULY 29, 2011 AND JULY 30, 2010

Net Sales. The net sales increase in the 2011 period reflects a same-store sales increase of 5.6% compared to the 2010 period. Same-stores include stores that have been open at least 13 months and remain open at the end of the reporting period. For 2011, there were 8,938 same-stores which accounted for sales of \$6.59 billion. The remainder of the sales increase was attributable to new stores, partially offset by sales from closed stores. Consumables sales increased at a higher rate than non-consumables, with the most significant growth related to changes in and further expansion of our candy and snacks, packaged food, and perishables offerings. Sales growth in our home, basic apparel and seasonal categories has been impacted

by weakness and uncertainties in the macroeconomic environment, and to some extent, by unfavorable weather trends.

Gross Profit. The gross profit rate as a percentage of sales was 31.8% in the 2011 period compared to 32.2% in the 2010 period. Consumables, which generally have lower markups than non-consumables, represented a greater percentage of sales in the 2011 period than in the 2010 period. In addition, our purchase costs have increased primarily due to increased commodity and fuel costs and we incurred higher markdowns in the first quarter to sell through winter apparel and home products. We recorded an increase to our LIFO reserve of \$14.2 million in the 2011 period compared to \$0.7 million in the 2010 period. These factors were partially offset by increased pricing and lower inventory shrinkage and distribution center costs, as a percentage of sales.

SG&A Expense. SG&A expense was 22.3% as a percentage of sales in the 2011 period compared to 22.8% in the 2010 period, a decrease of 57 basis points. SG&A in the 2011 period includes expenses totaling \$13.1 million, or 19 basis points, for payments and accruals related to the settlement and expected settlement of two legal matters while SG&A in the 2010 period includes expenses totaling \$15.0 million, or 24 basis points, primarily relating to share-based compensation incurred in connection with a secondary offering of our common stock. Retail salaries increased at a rate lower than our increase in sales reflecting further progress in the phased rollout of our workforce management system. A decrease in incentive compensation contributed to the overall decrease in SG&A as a percentage of sales as did a decrease in total advertising costs driven by an increase in cooperative advertising. SG&A, as a percentage of sales, was also favorably impacted by other cost reduction and productivity initiatives as well as the 11.1% increase in sales. These improvements were partially offset by depreciation and amortization expenses, which increased at a higher rate than the increase in sales, primarily due to increased investment in store fixtures and equipment resulting from recent merchandising initiatives such as raising the height of our store shelves, as well as the purchase of stores.

Interest Expense. The decrease in interest expense in the 2011 period from the 2010 period is due to lower outstanding borrowings, resulting from our repurchases of indebtedness in 2011 and 2010 and lower all-in interest rates on our term loan primarily due to reduced notional amounts on interest rate swaps. During the 2011 period, we redeemed or repurchased \$864.3 million aggregate principal amount of our outstanding 10.625% senior notes utilizing excess cash and borrowings under our revolving credit facility.

Other (Income) Expense. Other (income) expense in the 2011 period includes pretax losses totaling \$60.3 million resulting from the repurchase of our 10.625% senior notes.

Income Taxes. The effective income tax rate for both the 2011 and 2010 periods was 37.5%.

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 July 29, 2011. 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 July 29, 2011, 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 July 29, 2011, 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 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 amount (if any) outstanding under the *ABL Facility* is 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

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such extensions of credit exceed the then current borrowing base. Through July 29, 2011, 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 July 29, 2011, we had borrowings of \$346.0 million, \$14.8 million of commercial letters of credit, and \$28.6 million of standby letters of credit outstanding under our ABL Facility. We anticipate potential borrowings under the ABL Facility in fiscal 2011 up to a maximum of \$400 million outstanding at any one time.

Senior Notes due 2015 and Senior Subordinated Toggle Notes due 2017

On April 29, 2011, we repurchased in the open market \$25.0 million outstanding aggregate principal amount of our 10.625% senior notes due 2015 (the Senior Notes) at a redemption price of 107.0% of the principal amount, plus accrued and unpaid interest, resulting in a pretax loss of \$2.2 million. On July 15, 2011, we redeemed the remaining \$839.3 million outstanding aggregate principal amount of the Senior Notes (which had been scheduled to mature on July 15, 2015) at a redemption price of 105.313% of the principal amount, plus accrued and unpaid interest, resulting in a pretax loss of \$58.1 million. The redemption was effected in accordance with the indenture dated as of July 6, 2007 governing the Senior Notes pursuant to a notice dated May 31, 2011. The pretax losses on these transactions are reflected in Other (income) expense in our condensed consolidated statement of income in the applicable 13-week and 26-week periods ended July 29, 2011. We funded the redemption price for the Senior Notes with cash on hand and borrowings under the ABL Facility, under which the borrowing rate was 1.9% at July 29, 2011.

As of July 29, 2011, we had \$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).

Interest on the Senior Subordinated Notes is payable on January 15 and July 15 of each year. Cash interest on the Senior Subordinated Notes accrues at a rate of 11.875% per annum. We previously had the ability to elect to pay interest by increasing the principal amount of the Senior Subordinated Notes or issuing new Senior Subordinated Notes (PIK interest) instead of paying cash interest. Due to the expiration of the notification period for such option, all interest on the Senior Subordinated Notes has been paid or will be payable in cash.

We may redeem some or all of the Senior Subordinated Notes at any time at redemption prices described or set forth in the senior subordinated indenture. We also may seek, from time to time, to retire some or all of the Senior Subordinated Notes through cash purchases in 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.

Upon the occurrence of a change of control, which is defined in the senior subordinated indenture, each holder of the Senior Subordinated Notes has the right to require us to repurchase some or all of such holder's Senior Subordinated 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 senior subordinated indenture contains 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 senior subordinated indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on the Senior Subordinated Notes to become or to be declared due and payable.

Adjusted EBITDA

Under the agreements governing the Credit Facilities and the indenture, 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 July 29, 2011, 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 principles 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).

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

(in millions)	13-weeks ended		26-weeks ended		52-weeks ended	
	Jul. 29, 2011	Jul. 30, 2010	Jul. 29, 2011	Jul. 30, 2010	Jul. 29, 2011	Jan. 28, 2011
Net income	\$ 146.0	\$ 141.2	\$ 303.0	\$ 277.2	\$ 653.7	\$ 627.9
Add (subtract):						
Interest income	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)	(0.2)
Interest expense	60.7	69.3	126.3	141.3	259.1	274.1
Depreciation and amortization	65.4	59.8	129.7	119.9	252.1	242.3
Income taxes	85.1	83.7	181.9	166.3	372.7	357.1
EBITDA	357.2	354.0	740.9	704.7	1,537.4	1,501.2
Adjustments:						
Loss on debt retirement, net	58.1	6.4	60.3	6.4	68.5	14.6
Loss on hedging instruments	0.1	0.1	0.2	0.2	0.4	0.4
Advisory and consulting fees to affiliates				0.1		0.1
Non-cash expense for share-based awards	3.3	3.4	6.8	9.5	13.3	16.0
Litigation settlement and related costs, net			13.1		13.1	
Indirect costs related to merger and stock offering				0.8	0.5	1.3
Other non-cash charges (including LIFO)	12.1	3.4	17.6	5.2	23.9	11.5
Total Adjustments	73.6	13.3	98.0	22.2	119.7	43.9
Adjusted EBITDA	\$ 430.8	\$ 367.3	\$ 838.9	\$ 726.9	\$ 1,657.1	\$ 1,545.1

Current Financial Condition / Recent Developments

At July 29, 2011, we had total outstanding debt (including the current portion of long-term obligations) of approximately \$2.78 billion. We had \$641.6 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 12 months as well as the next several years.

Our inventory balance represented approximately 50% of our total assets exclusive of goodwill and other intangible assets as of July 29, 2011. 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 area of focus for us.

As described in Note 8 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.

In July 2011, Standard & Poor's upgraded our corporate rating to BB+ with a stable outlook, and Moody's raised our corporate rating to Ba2 with a stable outlook. Our current credit ratings, as well as future rating agency actions, could (i) impact our ability to obtain financings to finance our operations on satisfactory terms; (ii) affect our financing costs; and (iii) affect our insurance premiums and collateral requirements necessary for our self-insured programs. There can be no assurance that we will be able to maintain or improve our current credit ratings.

Cash flows from operating activities. Cash flows from operating activities were \$398.4 million in the 2011 period, an increase of \$119.1 million over the 2010 period. Cash flows from operating activities in the 2011 period compared to the 2010 period were positively impacted by our strong operating performance due to greater sales and increased net income, as described in more detail above under Results of Operations. Significant components of the increase in cash flows from operating activities in the 2011 period as compared to the 2010 period were related to working capital in general and Accounts payable and Accrued expenses and other in particular. The primary item affecting Accounts payable is the timing of domestic merchandise purchases. The primary items affecting Accrued expenses and other include increased accruals for legal settlements, favorable changes in tax reserves, and lower incentive compensation payments in the 2011 period compared to the 2010 period, partially offset by the timing of interest payments. In addition, we continue to closely monitor and manage our inventory balances, and they may fluctuate from year to year based on new store openings, the timing of purchases, and other factors. Merchandise inventories increased by 12% during the 2011 period compared to a 14% overall increase during the 2010 period. Inventory levels in our four inventory categories in the 2011 period compared to the respective 2010 period were as follows: the consumables category increased 15% compared to an 18% increase; the seasonal category increased by 6% compared to a 7% increase; the home products category increased by 7% compared to a 15% increase; and apparel increased by 10% in both periods. Underlying these increases are the effects of commodity cost increases (net of LIFO charges), the addition of new items to our merchandise offerings and selective advance purchases utilized to avoid certain expected cost increases.

Cash flows from investing activities. Significant components of property and equipment purchases in the 2011 period included the following approximate amounts: \$52 million for improvements and upgrades to existing stores; \$50 million for new leased stores; \$38 million for stores purchased or built by us; \$36 million for remodels and relocations of existing stores; \$27 million for distribution and transportation related purchases; and \$15 million for systems-related capital projects. 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 2011 period, we opened 301 new stores and remodeled or relocated 371 stores.

Significant components of property and equipment purchases in the 2010 period included the following approximate amounts: \$59 million for improvements and upgrades to existing stores; \$54 million for new leased stores; \$29 million for remodels and relocations of existing stores; \$11 million for systems-related capital projects; and \$10 million for distribution and transportation related purchases. During the 2010 period, we opened 315 new stores and remodeled or relocated 301 stores.

Capital expenditures for the 2011 fiscal year are projected to be in the range of \$550-\$600 million. We anticipate funding our 2011 capital requirements with cash flows from operations and if necessary, we also have significant availability under our ABL Facility.

Cash flows from financing activities. On July 15, 2011, we redeemed \$839.3 million aggregate principal amount of Senior Notes at a redemption price of 105.313% of the principal amount thereof, resulting in a cash outflow of \$883.9 million. On April 29, 2011, we repurchased in the open market \$25.0 million aggregate principal amount of Senior Notes at a price of 107.0% of the principal amount thereof, resulting in a cash outflow of \$26.8 million. A portion of the July 2011 redemption of Senior Notes was financed by borrowings under the ABL Facility. Net borrowings under the ABL Facility were \$346.0 million at July 29, 2011. We had no borrowings or repayments under the ABL Facility in the 2010 period.

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.

We believe 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 which 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 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 we believe have been materially accurate in recent years.

Impairment of Long-lived Assets. We review the carrying value of 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 the 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 28, 2011, approximately 35% 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 the fact that our stock has been publicly traded for a relatively short period of time in relation to the expected term of outstanding options. 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 28, 2011.

ITEM 4. 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 July 29, 2011 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 8 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 28, 2011.

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 July 29, 2011 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:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
04/30/11-05/31/11	4,219	\$ 9.50		
06/01/11-06/30/11		\$		
07/01/11-07/29/11		\$		
Total	4,219	\$ 9.50		

(a) Represents shares repurchased from employees pursuant to the terms of management stockholder's agreements.

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 8. 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, estimate, objective, intend, or could, and similar expressions that concern our strategy, plans, intentions or beliefs about future occurrences or results. For example, statements relating

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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, wheat, corn, sugar, oil, paper and resin);
- levels of inventory shrinkage;
- seasonality of our business;

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- 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, unanticipated expenses or operational failures in our supply chain including, without limitation, a decrease in transportation capacity for overseas shipments or work stoppages or other labor disruptions that could impede our receipt of imported merchandise;
- delays or unanticipated expenses in constructing a new distribution center;

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- damage or interruption to our information systems;
- changes in the competitive environment in our industry and the markets where we operate;
- natural disasters, unusual 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;
- a data security breach;
- 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 28, 2011; and

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- 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 forward-looking statements are 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: August 30, 2011

By:

/s/ David M. Tehle
David M. Tehle
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

10.1	Form of Stock Option Agreement, adopted on May 24, 2011, for Stock Option Grants to Certain Employees under the Amended and Restated 2007 Stock Incentive Plan for Key Employees of Dollar General Corporation and its Affiliates (incorporated by reference to Exhibit 10.2 to Dollar General Corporation's Form 10-Q for the fiscal quarter ended April 29, 2011 (file no. 001-11421))
10.2	Form of Restricted Stock Unit Award Agreement, adopted on May 24, 2011, for Grants to Non-Employee Directors under the Amended and Restated 2007 Stock Incentive Plan for Key Employees of Dollar General Corporation and its Affiliates (incorporated by reference to Exhibit 10.3 to Dollar General Corporation's Form 10-Q for the fiscal quarter ended April 29, 2011 (file no. 001-11421))
10.3	Summary of Non-Employee Director Compensation as amended on August 24, 2011
10.4	Retirement Agreement, dated as of July 20, 2011, by and between Kathleen Guion and Dollar General Corporation (incorporated by reference to Exhibit 99 to Dollar General Corporation's Form 8-K dated July 20, 2011 (file no. 001-11421))
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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document